A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Disney: A Never-Ending Empire

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A Project carried out on the Master in Finance Program, under the supervision of:

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04/01/2021

Abstract

Disney is an American Media & Entertainment conglomerate founded in 1923. This report focuses on the Media Networks and Direct to Consumer & International portions of the company. The analysis of both of these segments is marked by the presence of trends such as cord cutting and segment cannibalization. The report also discusses key risks, the model's discount rates and the sensitivity analysis performed.

Keywords (up to four)

Disney
Media
Streaming
Cord-Cutting

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the Disney Equity Research report (annexed) and should be read has an integral part of it.

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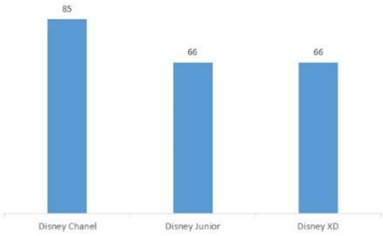
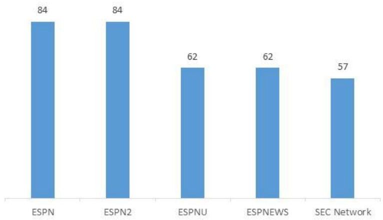


Figure 1 - US Subscribers to Disney Channel channels in 2020, in millions.
Source: TWDC 2020 Annual Report



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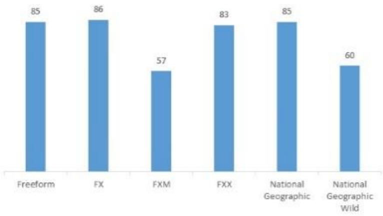

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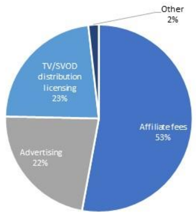

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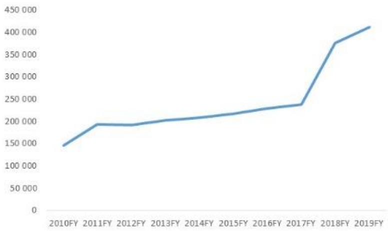

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Source: Bloomberg, November 2020

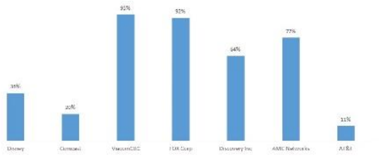
Business Model

This segment operates mainly in two areas, Domestic Cable Networks and Broadcasting. The first manages cable channel brands such as Disney (Figure 1), ESPN (Figure 2), Freeform, FX and National Geographic (Figure 3). Each of these brands (except for Freeform) operate several channels that target different age groups or different sport preferences (ESPN). Regarding the Broadcasting operation, TWDC[1] includes a domestic broadcasting network and eight domestic television stations. The company owns ABC Television Network which reaches, in partnership with the affiliate stations (approximately 240), the whole (The Walt Disney Company 2019) US television households, which currently are 120.6 million (Statista, 2019). In aggregate the local television stations owned by Disney, reach 20% (TWDC, 2019) of the US TV households. Both in DCN[2] and the Broadcasting operation, there is television production, distribution operations and acquisition of programming rights. The in-house content creation besides being used in the Media Networks and DTCI[3] segments are also in some situations licensed to third parties. Regarding the business model, revenues from this segment are mostly derived from Affiliate fees, Advertising and TV/SVOD[4] distribution (Figure 4). Affiliate fees are charged to MVPDs[5], digital OTT[6] services and television stations affiliated with ABC Network. These fees are defined in multi-year licensing agreements with the counter parties that define a fee per subscriber. The Advertising revenue comes from the sale of advertising time on the domestic network and on the cable channels. The only advertising revenue that is reported in Media Networks is the one that is ratings-based, the non-ratings based type of advertising is reported in DTCI. This revenue is affected by the number of viewers and the rating of each show, which are measured by Nielson. Finally, revenue from TV/SVOD, originates from the sale of the rights to use television programs and from content transactions within the Company. Regarding the main expenses, the operating expenses are the most predominant and they are mainly programming and production costs.

Market Overview and Competitors

The US Media Networks segment is populated in material terms by 7 firms. The 2019 revenue of these firms was $418 bn and the evolution is presented in Figure

[1] The Walt Disney Company
[2] Domestic Cable Networks
[3] Direct-to-Consumer & International
[4] Subscription Video on Demand
[5] Multichannel Video Programming Distributor
[6] Over-the-top



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Source: Excel model calculations on each company's annual report

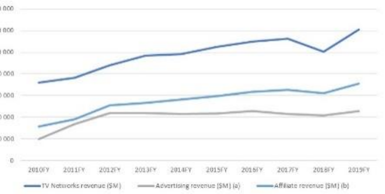
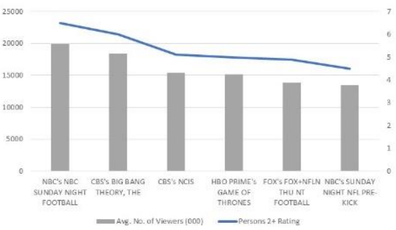


Figure 7 - Evolution of Media Networks industry Revenue, in millions.
Source: Bloomberg, 2020

Average KPI	All MN Comparables	TWDC MN
Revenue from MN	15 952	24 827
EBITDA Margin	34%	28%
EBITDA Margin, Excluding only Cable Providers	27%	N/A
Overall Company's ROIC*	8,91%	8,77%
Overall Company's WACC	5,53%	8,64%

Table 1 - Revenue, EBITDA margin, ROIC and WACC from MN industry and TDWC'S MN segment.
Source: Excel model calculations



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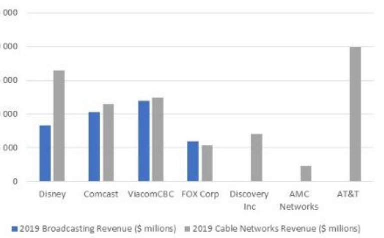

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Source: Each company's 2019 annual report

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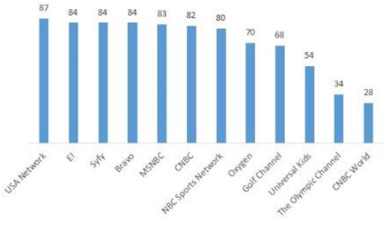
Source: Nielson, 2020

5. The revenue presented in the exhibit represents all operations, not only regarding the Media Networks segment. This allows us to understand that the companies that operate in this segment are large conglomerates that benefit from synergies with other business segments. We can see in Figure 6 the percentage of each company's revenues that are represented by their US Media Networks operation. Figure 7, represents the evolution of TWDC's MN segment revenue. Average Revenue of the 7 companies and average EBITDA Margin is presented in Table 1[7]. The lower result in EBITDA margin, presented by TWDC is due to being active in the Cable and Broadcasting environment, the latter having worst margin results in comparison. Regarding, ROIC and WACC, we are comparing MN results with the whole of the comparable company's average industry results and we can see that MN WACC is above the average and the value added is smaller than in the overall Media and Entertainment industry. The targeted population that these companies aim is the US households with TV access which according to Nielson in 2020 is 120,6 million. The major broadcasting channels, ABC, NBC, CBS and FOX reach almost all this population according to the respective annual reports. The cable channels reach is not the whole US households with tv, and it depends widely on the type of channel.

As this Disney segment operates several channels with different content, from sport to news, all other channels prove themselves as a competitor in terms of splitting viewership. Channels compete for viewers and subscriptions, if a Disney competitor increases its market share, Disney's branded channels viewership decreases. Thus, this advertising revenue decreases proportionally (TV-Broadcasting Competition and Advertising, Didier Laussel et al) due to the viewership being directly tied to the ratings-based advertising (Figure 8). The affiliate fees will also likely decrease as MVPDs offer a lower per subscriber value. Regarding the Broadcasting competitive environment, Disney's ABC rivals with Comcast's NBC, Viacom's CBS, FOX and CW Network (joint-venture between ViacomCBS and AT&T). Apart from CW, all these channels reach approximately the whole US TV households, the only difference being the reach of the local branded broadcasting channels, where Disney's 20% reach is below the competitors. When analysing the total broadcasting environment, the values in Figure 9 go in hand with the viewership results (Figure 10), as Viacom's CBS was the most watched channel in 2019, followed by Comcast's NBC and Disney's ABC. FOX closely follows ABC and the CW Network is clearly less important than the other 5 broadcasting networks.

One of the biggest competitors for Disney is Comcast, which owns several channels presented in Figure 11. When comparing total US households'

[7] The * means that not all the 7 comparables had available information. Discovery INC, AMC Networks and AT&T were excluded.



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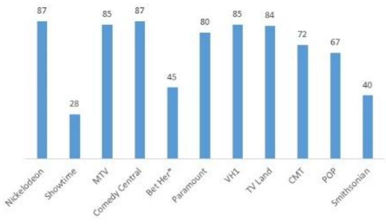
Source: Comcast's annual report, 2019



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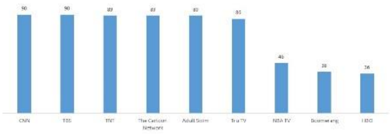

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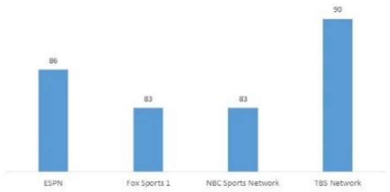

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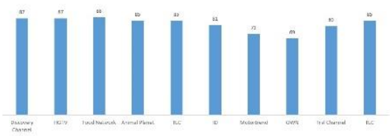
Source: Nielson, 2018



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Source: Discovery Inc annual report, 2019

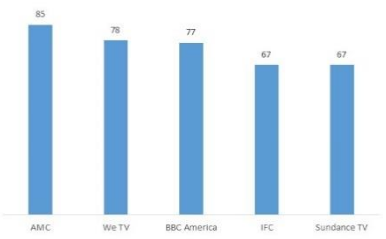

Figure 16 - AMC channel subscribers in 2019, in millions.
Source: AMC annual report, 2019

subscriptions between TDWC and CMCSA, the number is quite similar, although the latter has more channels.

Viacom CBS also operates cable channels, such as: Showtime, Nickelodeon, Comedy Central, MTV and others. We can see in Figure 12[8], the number of American households who have access to them.

AT&T owns the brand Turner which itself owns CNN, TBS, TNT, Cartoon Network (Figure 13) and others, AT&T also owns Home Box Office (HBO). Although CNN is a pay cable channel it competes with the traditional broadcasters, and reaches 96,2 million households (according to CNN). Regarding the cable channels AT&T does not have the highest number of subscribers or viewers (Nielson, 2019), however the fact that it owns several channels means cable revenues are the highest throughout all competitors. The fact that the AT&T group includes telecommunication offerings, which risk wise resemble a utility, the model doesn't use AT&T's beta as a comparable to the MN segment.

Fox Corporation is an enterprise that resulted from a spinoff of Twentieth Century Fox. In the cable channels FOX News reached 84 million households (FOX Corporation Annual Report, 2019) and FOX Sports is a strong competitor for ESPN as we can see in Figure 14.

Disney also faces competition from Discovery Inc, which owns several channels such as Discovery Channel, TLC, HGTV, Animal Planet, Food Network and others. We can see figures from some of Discovery's cable channels in Figure 15. They are quite similar with competitors as certain genres of cable channels are usually part of the same packages offered by MVPDs.

There are also smaller competitors such as AMC (Figure 16), Sinclair Broadcasting Group, Tegna or Sony (international cable channels) which are some sort of competitors, however due to size, overall operations or materiality are not included in the comparable group for valuation purposes.

Regarding the overall revenues between segments of each of the competitors, Disney was the second strongest in 2019 in the cable networks segment (Figure 9). When adding the total revenues (only including the major competitors discussed above and not including Tegna and Sinclair Broadcasting Group), Disney has the most percentage of total revenues closely followed by Comcast, AT&T and Viacom (Figure 17). When we compare EBITDA margins, we can see that the values are quite similar with the exception for the companies that only operate in the cable channels segment, which provide a higher EBITDA margin in comparison with broadcasting networks (Figure 18).

A final note on the way the competition affects Disney's future performance, the

[8] Due to lack of information data is for 2018 instead of 2019.

segment has reached a steady state in the past years, with similar Gross and Net Margins and also a small revenue growth (2019 and 2020 are exceptions due to the consolidation of TFCF channels). The way the competition operates is equal to TWDC with Affiliate Fees and rating based advertising, and there is nothing to believe market share will change between these companies. The changes in the future of this segment, which are further explained in the drivers' part of the report are solely explained by the deterioration of the overall MN market in the US.

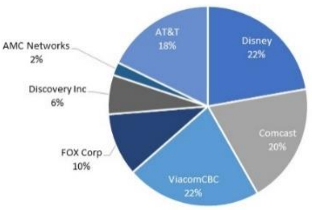

Figure 17 - Market share of revenue in the US Media Networks segment, in 2019.
Source: Each company's 2019, annual report.

Valuation

The revenue forecast for Media Networks and DTCI are dependent due to the Cannibalization effect, representative of the increase subscription numbers of DTC solutions in comparison with traditional Media Networks. This effect is tied to the cord cutting phenomena. However, DTC is expected to achieve an organic growth beyond the users that are transferring from Media Networks such as the users that are gaining access to online video content. KPI's are presented in Table 2.

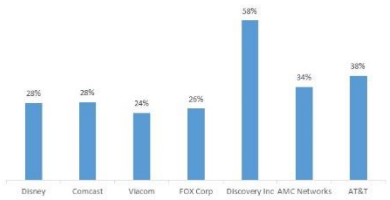

Figure 18 - EBITDA margin, 2019.
Source: Analyst estimates

Trends

- Cord-Cutting

MN	2020FY	2025FY	2030FY	2035FY
Revenues	28 393	22 746	19 873	17 656
Gross Margin	39%	40%	40%	40%
Core Result	5 981	4 662	4 047	3 554
Net Margin	21%	20%	20%	20%
FCF	8 785	5 090	4 224	3 718
WACC	9%	10%	11%	12%
ROIC	10,66%	8,72%	7,77%	6,93%
Investment Rate	-46,86%	-9,18%	-4,38%	-4,60%
Growth	-5,00%	-0,80%	-0,34%	-0,32%

Table 2 - KPI's for MN segment.
Source: Analyst estimates, 2020

This phenomenon started around 2007 and it consists of traditional pay tv channels, losing subscribers, Figure 19. (Cordcutting, 2020). Cord cutting started around the same time Netflix launched its SVOD service. The lower cost offering combined with the financial crisis started the seed for a movement that over the years has led to 31,2 million cord-cutters in the US alone (financial reasons are the most crucial in the decision to cord cut, Figure 20. According to TechCrunch, cord cutters will reach 46,6 million US households in 2024 which would mean there would be only 62 million cable US TV households that year (due to slower decrease in subscribers in 2020, when comparing with CordCutters data, the model does not assume that drastic decrease, it assumes that there will be 70 million US TV households in 2024 in the drastic scenario). TWDC has been suffering this cable subscribers decline in the past years in its own channels and on equity investments channels such as A&E and History, Figure 21. This effect has also been noted in the number of primetime viewers in the leading cable channels, Figure 22. In 2020, due to COVID-19 and its effects in the cancelling of live sports and the financial impact, cord-cutting has been the highest ever with a 7,5% drop in cord subscribers (eMarketer), which was double of what was expected. Logically, this cord cutting effect will punish cable providers and therefore will also decrease affiliate revenues for cable operators. eMarketer expects that cord cutting will affect ad revenue for cable channel operators, the decrease in ad spending is expected to decrease from $70,59bn in 2019 to $67,48 bn in 2024. From Zenith (Figure 23), we can observe that North America and the Asia Pacific region have been decreasing in the past

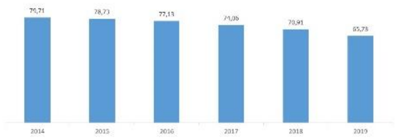

Figure 19 - DirecTv, Dish, Charter and AT&T aggregate subscribers.
Source: Analyst computations on Leichtman reseach group data, 2019.

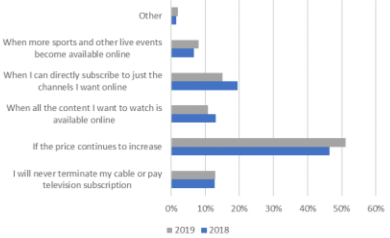

Figure 20 - Reasons for cancelling cable subscriptions.
Source: Limelight Network

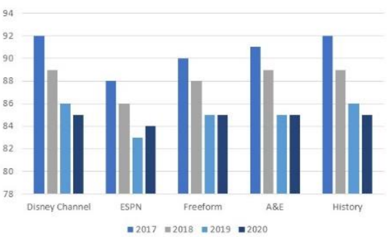

Figure 21 - Evolution of TWDC's cable subscribers, in millions.
Source: TWDC Annual Reports

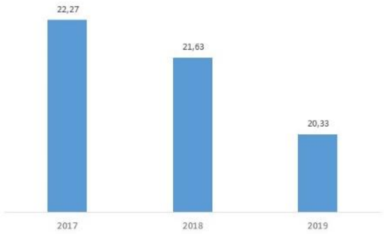

Figure 22 - Leading cable networks in the United States from by number of primetime viewers.
Source: Nielson, 2019

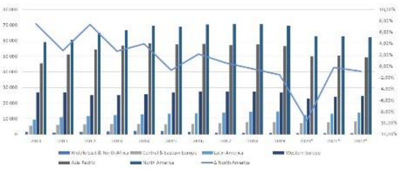

Figure 23 - TV advertising spending worldwide from 2000-2022, by region. Also shown, the yearly US variation.
Source: Zenith, 2019

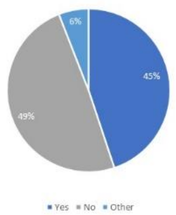

Figure 24 - Would you cancel cable or satellite services and opt only for streaming?
Source: Analyst estimates, based on survey, 2020.

years the expenditure on tv advertising, however in Europe it is still growing, this tendency is expected to invert as streaming platforms become more common in Europe. The fact that all major Media Network companies have launched or will launch (Discovery Inc) a streaming platform with their content, is the proof that the traditional pay-tv model is dying, and that companies are adapting. According to our survey, 45% of respondents would cancel cable for only streaming platforms which goes in line with the overall market feeling. This tendency is reflected on the model with the decrease in Media Networks subscribers and International cable subscribers. In order to reflect the uncertainty regarding the pace of this trend, in the model, the decrease in subscribers takes in consideration 3 possible rhythms of cord cutting.

- Cannibalistic Tendency

The definition commonly used is when a company "eats" into its own market by introducing a new product to an existing line or an established brand. (Tammy Drezner, Cannibalization in a Competitive Environment). The SVOD and vMVPD solutions created by traditional Media Network companies such as TWDC, Comcast, Viacom and AT&T enter this definition (The Motley Fool, 2019). The investment in streaming solutions is to capture clients that are fleeing from traditional pay-tv, so, the only way this change is beneficial for the companies above mentioned is if margins or pricing are better in the Direct-to-Consumer environment than in the traditional Media Networks (US and International). Currently, the margins in the DTC scenario, taking Netflix as the best proxy, are far from the levels that TWDC'S MN cash cow segment has reached. The company's MN segment EBITDA margin in 2019 was 27,5% in comparison with Netlflix's 12%. However, MN has a stable EBITDA margin in the past years due to being a consolidated segment, and Netflix has been improving for the past years (averaging 4% annual growth) its EBITDA margin. On a steady state, DTC solutions are expected to increase the EBITDA margins, with the consolidation of the market. However, against contrary belief, the margins are not bound to heavily overcome the steady-state MN margins, as competition for consumers and content is much larger. For non-traditional Media Network brands such as Amazon, Apple or Netflix this effect isn't presented as they do not own cable or broadcasting operations that can suffer from cannibalism. In the survey we realized, the respondents were divided if they were cancelling all their cable subscriptions for Pay-tv (Figure 24). If we only took USA residents responses the Yes answer was 82%, which hints that the cord cutting movement is more advanced in the USA. The model represents this trend as the subscribers lost by traditional pay-tv channels are absorbed by the expected counter-parties in the streaming solutions and the margins for DTCI evolve during the years to the steady state which is slightly higher than the MN steady state.

Revenue Drivers

	Disney	ESPN	Freeform	FX	NG
Drastic Change to DTCI	-3,76%	-3,76%	-3,76%	-3,76%	-3,76%
Modest Change to DTCI	-2,60%	-1,52%	-1,88%	-2,60%	-2,60%
Slight Change to DTCI	-1,00%	-1,00%	-1,00%	-1,00%	-1,00%
	ABC National	ABC Local	TV/SVOD Distrubuting Licensing	Advertising	Affiliate Fees
Drastic Change to DTCI	-1,50%	20,00%	-25,00%	-1,00%	-1,00%
Modest Change to DTCI	-0,50%	20,00%	-15,00%	-0,50%	-0,50%
Slight Change to DTCI	-0,20%	20,00%	-5,00%	0,00%	0,00%

Table 3 - Model estimates for each scenario.
Source: Analyst estimates

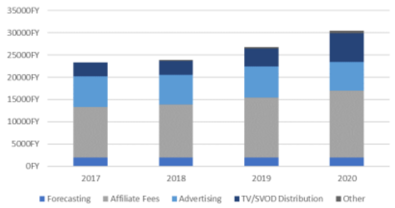

Figure 25 - Media Networks, revenue overview, in millions.
Source: TWDC Annual report

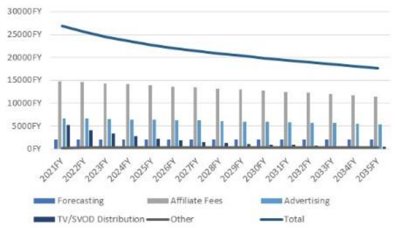

Figure 26 - MN forecasted revenues, in millions of USD.
Source: Analyst estimates, 2020

With the concepts approached above, in the trends, we can formulate some visions regarding the future Revenues for Media Networks and DTCI. Due to the uncertainty on the pace that people will adopt DTC solutions and cancel cable subscriptions, the model contemplates a risk factor where we assume there is a 65% probability of a drastic change from MN to DTC, 25% modest change and 10% slight change (Table 3). The percentages reflect our view, in relation to the past cord cutting events and future expectations on the total number of cable subscribers. Regarding Media Networks revenue, sources are separated in 4 captions. Other, represents the sale of National Geographic Magazines, which is becoming a legacy business (Figure 25). Due to the legacy status, no change in the number of subscribers is expected and the cost of the subscription will vary with expected US inflation. Regarding the TV/SVOD licensing, the company has stated that it intends to stop licensing content to other companies as it wishes to maintain full control with its platforms in particular Disney's DTC solutions, this change will have different paces in accordance with the future state, for example, if the drastic change to DTC scenario is the future, a higher decrease in TV/SVOD licensing revenue is expected. The forecasted revenues are presented in Figure 26.

Regarding the most important captions for MN revenues, the value drivers are the number of subscribers, the average advertising fee per subscriber and the average affiliate fee negotiated per subscriber. Each channel negotiates a different affiliate fee per subscriber with MVPD's, the most expensive channel MVPD's pay Disney for is ESPN, reports say in 2017 it was paying $9 per subscriber and that value only increased from then onwards (Mywallst, 2020). ESPN is the largest sports channel in the US reaching in 2019 a daily average of 700 thousand viewers (Deadline, 2019). For model purposes we combined the affiliate fees and multiplied by the number of subscribers to reach the affiliate revenue. For the past years, affiliate revenues in Media Networks have kept climbing although the subscriber count has been decreasing, this has happened because the affiliate fees are negotiated periodically, and the revision of fees that goes in line with the decrease in subscribers has not happened yet. This trend will soon end, as MVPD's will not be able to pay as much carriage fees on a declining business. For that reason, the model contemplates a decrease in per subscriber value. In relation to the subscriber count, the expected decrease varies with the expected change to DTC for the cable channel viewers. In Figure 27, we can compare 2019 average affiliate fee's per subscriber. TWDC has the highest average affiliate fee's by almost twice of the average, due to ESPN (AT&T data includes international channels and therefore is excluded from the average). The model assumes this value will decrease, as the whole industry does. In the most drastic change, an expected

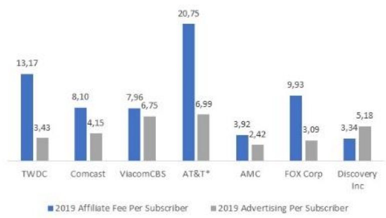

Figure 27 - 2019 Average per cable subscriber fee.
Source: Analyst estimates

decrease of subscribers is consistent with a 5-year average of the variation of the US population with cable. In the modest scenario the decrease is expected to be the average of Disney's past 4 years decrease of each cable channel and for the slight change, it is assumed a small decrease of a single percentage point (Table 3). The average advertising per cable subscriber is also presented in Figure 26. This value, due to the cord-cutting effect, according to eMarketer is expected to decrease over the years, and the model contemplates it. The value presented in Figure 27 for TWDC differs from the ones presented in the model, due to simplification purposes the model aggregates branded channels.

For the broadcasting number of subscribers, the driver is the US population with TV access which is measured as a penetration rate of the whole population. Depending on the expected rate of change to DTC this penetration is expected to decrease. For the past 4 years, the number of TV households increased from 118 million to 121 million, it has been increasing in opposition to the cord cutting phenomena in the cable channels. For this reason, the decrease in Broadcasting Affiliate Fees and Advertising is slower than the cable counterpart, however we expect it to decrease, as users are starting to view these channels through on demand methodologies.

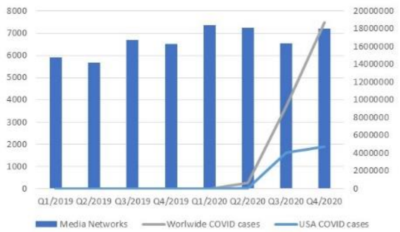

Figure 28 - MN revenues in millions and COVID cases.
Source: Analyst estimates

COVID isn't affecting Media Networks revenue as, through an analysis on the quarterly earnings and number of COVID cases in the US, doesn't demonstrate a negative correlation Figure 28.

Margins, Rates and Assets & Liabilities

Average KPI	All MN Comparables	TWDC MN
Revenue from MN	15 952	24 827
EBITDA Margin	34%	28%
EBITDA Margin, Excluding only Cable Providers	27%	N/A
Overall Company's ROIC*	8,91%	8,77%
Overall Company's WACC	5,53%	8,64%

Table 4 - KPI's on MN and industry data.
Source: Analyst estimates

Margins in the Media Networks segment are quite consistent with the rest of the industry (Table 4) and have been quite consistent over the past, therefore the margins aren't expected to change in the future and the model assumed that reasoning. There is not an expectation of improving operating margins as the market is already mature and investment is being targeted to DTCI. (Figure 29).

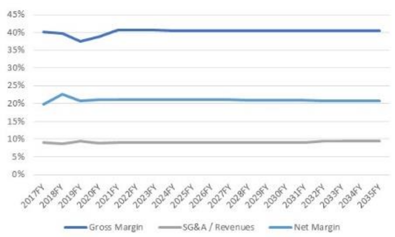

Figure 29 - MN margins.
Source: Analyst estimates

Regarding the return on assets that this segment has, the model assumes it is represented 50% by Disney's regression beta and 50% the average of the comparables that can be a proxy for the Media Networks beta, which are Comcast, ViacomCBS, Fox Corp and Discovery Inc. Although AT&T and AMC are discussed in the report for segment information, due to the small size of AMC and the internet providing business of AT&T, their beta does not reflect this market Table 5. The current WACC (2020) for TWDC'S MN is 8,64% and the ROIC 8,77% which signifies that no value is being added, and the segment is stagnated, in the steady state the WACC is expected to increase to 13,01% (the model assumes all segments have the same capital structure) and the ROIC is expected to decrease to 7,2%, which goes in line with our expectation of the MN destroying value. This result is consistent with our nominal g in the steady state being -0,3%, which means

Brands	Ru
Disney MN	8,72%
Comcast	7,96%
Viacom	9,17%
FOX Corp	10,64%
Discovery Inc	7,47%

Table 5 - MN and comparables Ru.
Source: Bloomberg, 2020

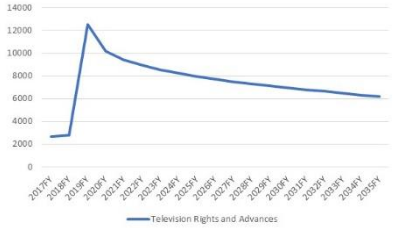

Figure 30 - MN television costs rights and advances.
Source: Analyst estimates

Regression with y= television rights and content and x= revenues		
βu	0,31	0,00
σ	0,09	#N/A
R2	0,80	4324,00
F stat	11,73	3,00
ssreg	219306215,67	56090802,22

Table 6 - Regression data on television costs rights and advances relation with revenues.
Source: Analyst estimates

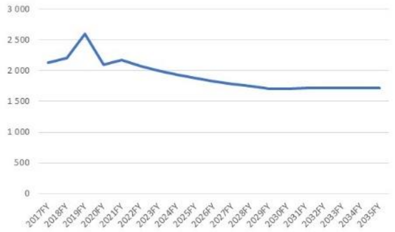

Figure 31 - NWC for MN segment.
Source: Analyst estimates, 2020

this segment will eventually seize to exist. This assumption is based on the continuous decrease of subscribers and on the demographic change that will happen (the oldest generation is the one that is maintaining their cable subscriptions).

When discussing assets in the Media Networks and DTCI segments we are mainly discussing Television Costs Rights, Advances and Intangibles (Figure 30). For the Media Network segment, a regression between revenues and these rights was tested, Table 6, and applied to the model (the higher interval of the 95% confidence interval was used, as to ensure a steady decrease of content). Regarding the intangible assets, they currently contain mostly MVPD agreements (that will decrease due to cord-cutting), character/franchise intangibles, copyrights and trademarks. As the segment is expected to decline no variation of intangible assets is recorded. When discussing the forecasting of NWC as a whole, both assets and liabilities which mainly depend on the revenues caption, are decreasing, thus the long-term cash-flow from NWC in Media Networks is quite small (Figure 31).

Direct to Consumer & International

Business Model

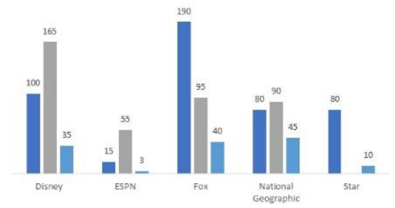

Figure 32 - Number of international TWDC channels subscribers, in 2020, in millions.
Source: TWDC Annual report, 2020

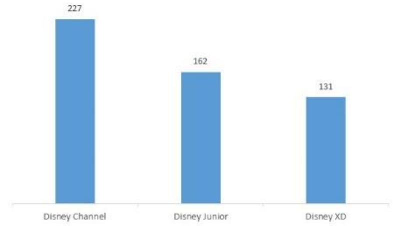

Figure 33 - International Disney branded channel subscribers, in millions.
Source: TWDC Annual report, 2020

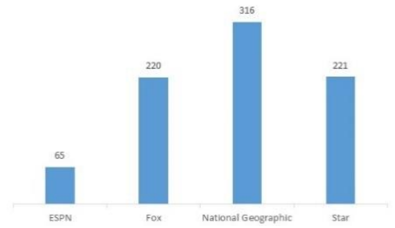

Figure 34 - ESPN, Fox, National Geographic and Star branded channels subscribers, in millions.
Source: TWDC Annual report, 2020.

DTCI includes, branded international channels, such as Disney, Fox (FX in the US), National Geographic, ESPN and Star. These channels produce local content or acquire rights from domestic studios and third parties. Information about the reach and number of these channels is presented in Figure 32, Figure 33 and Figure 34. The most recent segment within DTCI are the Direct-to-Consumer streaming services such as Disney+, ESPN+, Hulu and Hotstar Disney+. Disney+ has been rolled out to the USA, Canada, several European countries and will continue to expand to other European, Asian and Latin American countries. Hulu has been a US service but will in 2021 be rolled out to other countries (to be defined). ESPN+ is solely US based and will remain so in the short term. Hotstar Disney+ is the mostly Indian and southeast Asia version of Disney+ that also includes Indian content previously provided by Hotstar (productions by Star Studios). The subscription numbers of these services are presented in Figure 35. Besides the international channels and DTC business, DTCI operates digital content distribution platforms and services such as branded websites. Regarding the business model, international channels revenue sources and costs are similar to the ones in Media Networks. Revenues from affiliate fees are negotiated per subscriber with the MVPDs and advertising is contingent on the number of viewers. Regarding the DTC segment there are subscription fees, which are charged to the clients for the right to use the platform they subscribe to. There are also advertising revenues which are non-ratings based, meaning they can be targeted to specific

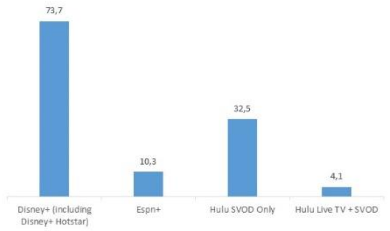

Figure 35 - TDWC DTC platforms subscribers, in millions.
Source: TWDC Annual report, 2020

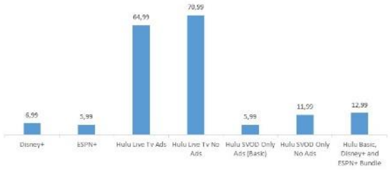

Figure 36 - US DTC platforms subscription price.
Source: Each reported company's website, 2020

Average KPI	All US International Cable Comps	TWDC DTCI
Revenue from International	6 974	5 425
EBITDA Margin	17%	N/A
Overall Company's ROIC*	9,64%	-3,10%
Overall Company's WACC	5,33%	9,06%

Table 7 - KPI's of TWDC International channels segment and also comparable firms.
Source: Analyst estimates, 2020

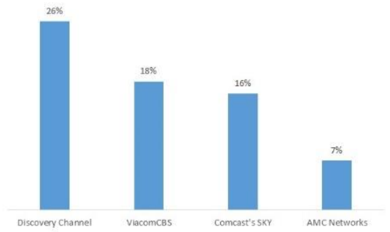

Figure 37 - Comparable firms EBITDA margin in 2019.
Source: Analyst estimates

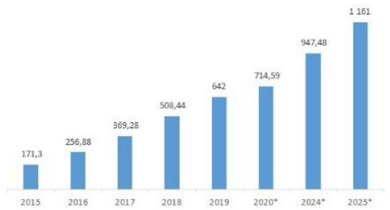

Figure 38 - Past and expected SVOD subscribers, in millions.
Source: Digital TV Research, 2019

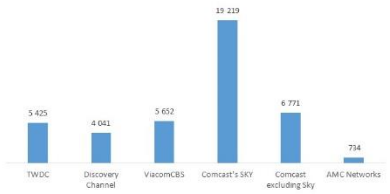

Figure 39 - 2019 Revenue from international channels.
Source: Each company's annual report, 2019

viewer groups. This sort of advertising revenue is higher, in a per subscriber basis than the ratings-based advertising (Burguet & Petrikaite, 2018). Hulu, has a plan for ASVOD and a simple subscription video on demand which is 30% more expensive. Hulu also operates a Live Tv service which works as a vMVPD. Disney+ operates in a SVOD business model (with the exception for premiere films like Mulan which was operated in a TVOD model) and ESPN+ due to the nature of live sports, operates in a ASVOD model. US monthly price points are presented in Figure 36.

Market Overview and Competitors

The International part of the segment is inhabited by all the US firms who operate cable channels outside the US and also all the national companies that operate entertainment, sports, lifestyle and other cable channels. Disney operates branded channels in over 160 countries, so it faces national competition on each of those countries. Comparable results with other US firms are presented in Figure 37 and Table 7[9]. Disney's DTCI segment includes the growing subscription platforms which creates unreliable data on ROIC in 2020.

The Direct-to-Consumer (mainly OTT) market where Disney is inserted is divided between SVOD, AVOD, TVOD and vMVPD platforms. In the SVOD market there exists Disney+, Netflix, Apple TV+, Amazon Prime Video, Peacock, HBO Max, Hulu and other smaller players. Hulu Live TV operates in a smaller market where traditional MVPD's are been challenged by virtual providers who incur in lower costs of providing the product. In 2019 there were 642 million OTT subscribers and Digital TV estimates that by 2025 there will be 1161 million subscribers (Figure 38) which implies a 10% CAGR which is consistent with the subscription forecasted revenue in the model with a 10% CAGR in the explicit period. Regarding revenue from all these OTT platforms data is not available for most services. Disney's 2020 subscription revenue was $7,6 billion compared to $23,819 billion from Netflix. Once again, comparing WACC's we can see that 2019 Disney's WACC was 8,1% compared to Netflix's 10,53%, which is expected as DTC is a stronger more volatile segment. As a final note, this segment is populated by traditional Media players such as Disney, companies that were not in the M&E industry such as Amazon and also companies like Netflix that did not host traditional channels before.

Regarding the international channels competitors, National Geographic directly rivals channels such as Discovery Channel; Disney Channel rivals with Nickelodeon (ViacomCBS), Cartoon Network (AT&T) and other junior entertainment channels from each country. Fox rivals with channels such as Syfy (Comcast), AXN (Sony) and other content that runs in each individual country. On

[9] Data in relation to ROIC does not include AMC Networks and Discovery Inc. The ROIC and WACC presented by TWDC is only represented by DTCI segment.

Figure 39, we can see the revenue from other US cable channel owners, this revenue only represents income from international channels. Regarding EBITDA margins, the average is presented in Table 7.

Regarding DTC and, SVOD, the largest competitor to Hulu and Disney+ at the moment is Netflix (Figure 40[10]). Netflix is an established service that besides the content acquired, has started developing its own content, and since then, launched 2769 hours of original content (Statista, 2019). Currently, it has content assets of over 24 billion dollars and spreads its content in 190 countries (Netflix, 2019). Its worldwide ARPU was $10,82 (Netflix, 2019) and its US ARPU was $13,4. Netflix has been increasing from 2017 to 2019 its gross margin from 28,54% to 37,36% whilst the EBITDA margin was 12% in 2019. The overall number of subscribers is presented in Figure 40 and the US pricing is presented in Figure 41.

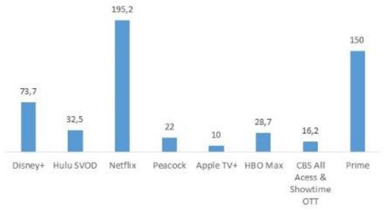

Figure 40 - Number of DTC platform subscribers in 2019, in millions.
Sources: Business Insider, 2019; Mesaonline 2019; Theverge 2010

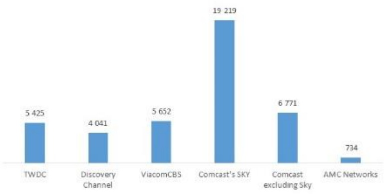

Figure 41 - US DTC platforms price (Basic SVOD).
Source: Each company's DTC website

Another competitor in the SVOD environment is AT&T's HBO Max. This service, similarly, to Netflix is preponderantly targeted to the age group 18-49 (Cordcutters,2019 and businessofapps,2019). AT&T acquired the HBO brand, when the company acquired Warner Bros. Similarly, to Disney, HBO has already a vast library of content due to the other businesses of Warner Bros and Turner, this vast library meant HBO Max launched with 10000 hours of content.

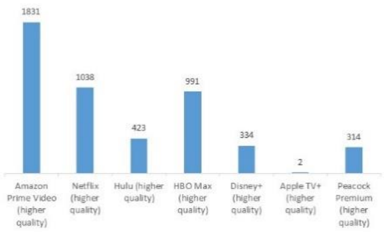

Figure 42 - High quality movie catalog, September, 2020.
Source: Statista, 2020

The competitor with the largest library in terms of movies and tv shows (Reelgood, 2020) is Prime Video, we can see the number of movies divided by high and low quality in Figure 42 and Figure 43. This SVOD service was the solution Amazon found to enter the streaming environment. Amazon Prime is a service that improves customer care and delivery speed in Amazon supported countries, Amazon Prime Video is the SVOD platform. Users who pay for Amazon Prime automatically have access to Amazon Prime Video for no extra charge, however non-Amazon Prime users can subscribe to the Prime Video for $8,99. Amazon Prime as a whole has over 150 million worldwide subscribers with a monthly cost of $12,99. However Media Post estimates that only 26 million of the US Prime subscribers use Prime Video in the US.

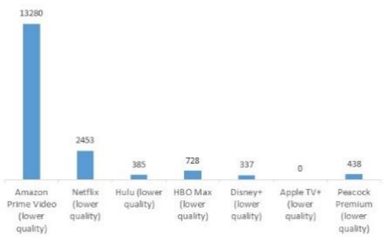

Figure 43 - Low quality movie catalog, September, 2020.
Source: Statista, 2020

Another competitor which was not in the MN segment but has started a SVOD service is Apple, with the Apple TV+ service. The service was launched November first, 2019 and according to Apple is now available in over 100 countries. The number of subscribers (Figure 40) are boosted by the 1 year free membership offered by Apple on every phone, tablet or computer purchase.

The final big SVOD service is Peacock by Comcast, which is the most recent service that has been launched on the 15th of July 2020. This service includes NBC content and Universal Studios theatrical productions. The service currently is only available in the US but will roll out to the EU in the future.

[10] Data for Disney DTC platforms and Netflix is in 2020.

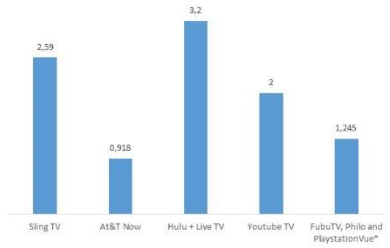

Figure 44 - vMVPD's number of subscribers, in 2020, in millions.
Source: Fierce video, 2020

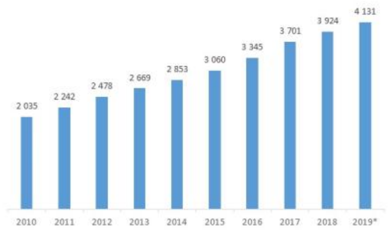

Figure 45 - Global number of internet users, in millions.
Source: ITU

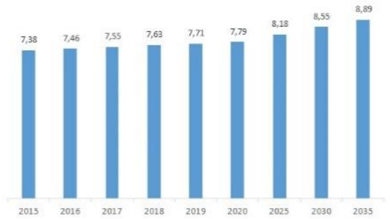

Figure 46 - World population, past and forecasted, in billions.
Source: UN DESA, 2020

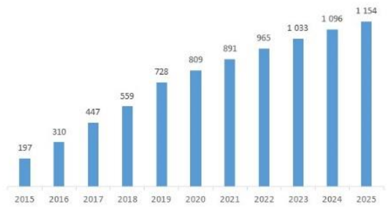

Figure 47 - Mobile internet users in Southern Asia, in billions.
Source: Statista, 2020

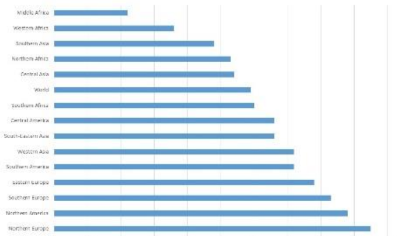

Figure 48 - Internet penetration rate worldwide, in 2020, by region.
Source: We Are Social; DataReportal; Hootsuite; ITU; GlobalWebIndex; GSMA Intelligence; APJII; Kepios, 2020

Viacom and CBS merged in 2019, with this, the newly formed ViacomCBS, is managing CBS All access and Showtime OTT. The first service which is solely available in the USA, costs $9,99 without advertising and Showtime OTT $10,99. The combined number of subscribers is around 15 million. ViacomCBS will rebrand CBS All Access to Paramount+ in order to create a larger competitive player within the SVOD market, this player will have a huge library of theatrical productions by Paramount Studios. ViacomCBS also owns PlutoTV which is an AVOD platform with 28 million users.

TWDC'S Hulu Live TV, faces competition within the vMVPD segment. Besides competing with much larger traditional MVPD's it also faces other vMVPD's. The vMVPD's market has reached 10M total subscribers according to Fierce Video, with the biggest player being Disney's Hulu. The subscriber count is shown on Figure 44.

Regarding revenues and margins of competitors, this is a market with low levels of transparency. Besides Netflix, which solely focuses on SVOD (has a small legacy business) there is no information on most OTT platforms margins or even revenue. In some businesses, not even ARPU's are divulged. Also, besides, Netflix, no firm can be a proxy for the segment of DTCI, as the OTT portion of their businesses is small.

Trends

- Accesability to Online Video Content

In 2020 the number of internet users was 4,8 billion (Statista, 2020) and in the past decade the CAGR was of 7,9% (Figure 45). In 2020 59% of the world population had access to the internet and the growth in expected population with internet access (3,3% according to ITU) surpasses the growth in global population which according to UN DESA data is 1% per year in the next 10 years (Figure 46). For this reason, organic growth is expected for DTC solutions as developing countries will gain access to subscription services, mainly with their mobile phones, Figure 47 and Figure 48. TWDC announced in the Q4 investor call that Hotstar Disney+ already accounts for a quarter of Disney+ subscriptions which is the reflection of this adoption.

Revenue Drivers

When forecasting the revenues for the DTCI segment the model splits between the international channels and the streaming platforms. For the international channels the same logic mentioned in the MN for the national cable networks is applied. The three scenarios are also assumed, and the channels decrease their number of

	Disney	ESPN	FOX	NG	Star
Drastic Change to DTCI	-3,76%	-3,76%	-3,76%	-3,76%	-3,76%
Modest Change to DTCI	-2,60%	-1,52%	-1,88%	-2,60%	-2,00%
Slight Change to DTCI	-1,00%	-1,00%	-1,00%	-1,00%	-1,00%
	advertising DTC real growth	organic DTC services 2020/2027	organic DTC services last 2027+		
Drastic Change to DTCI	4,00%	2,02%	0,50%		
Modest Change to DTCI	3,00%	2,02%	0,50%		
Slight Change to DTCI	2,00%	2,02%	0,50%		
TV/SVOD Distrubuting Licensing		Advertising Channels	Affiliate Fees		
Drastic Change to DTCI	-25,00%	-2,00%	-3,00%		
Modest Change to DTCI	-15,00%	-1,00%	-2,00%		
Slight Change to DTCI	-5,00%	-0,50%	-1,00%		

Table 8 - Assumed scenarios in the DTCI segment.
Source: Analyst estimates

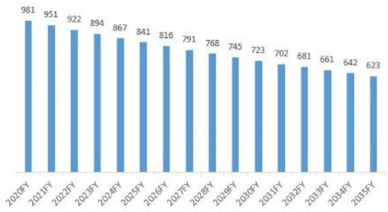

Figure 49 - Weighted average number of international channel subscribers, non-recurrent, in millions.
Source: Analyst estimates, 2020

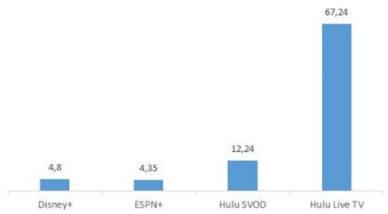

Figure 50 - TWDC DTC services yearly ARPU, in dollars.
Source: TWDC Annual report, 2020

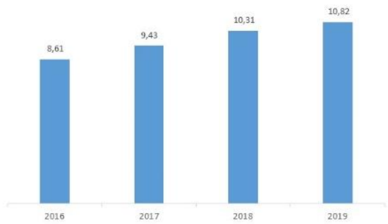

Figure 51 - Netflix monthly ARPU, worldwide.
Source: Netflix Annual report, 2016, 2017, 2018, 2019

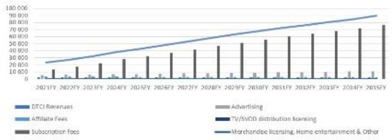

Figure 52 - Forecasted DTCI revenues, in millions USD.
Source: Analyst estimates, 2020

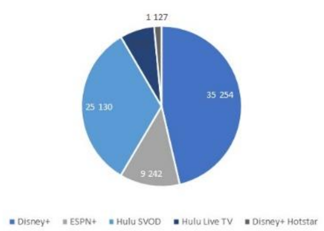

Figure 53 - Forecasted, 2035, subscription revenues, in millions of USD.
Source: Analyst estimates, 2020

subscribers with the same percentage change applied in the national channels (Table 8). The weighted average number of subscribers (in accordance with the percentage scenarios, Figure 49) is then multiplied by the average affiliate fee per subscriber which evolves in accordance with the inflation rate, to obtain the international channels affiliate fees. For the advertising in these channels the amount earned per subscriber (paid by firms who advertise in the company's channels) is expected to decrease (eMarketer, 2019) in accordance with the change to DTC.

Regarding the streaming channels the drivers are the yearly ARPU (Figure 50) and the number of subscribers. The evolution of the ARPU depends on the inflation rate (world) and also depends on the long-term value of the service. Disney+ currently is selling under-price in comparison to the competitors, which is a strategy for capturing subscribers in the short term. When analysing the long term ARPU (without advertising) of Hulu and Disney+, which is consistent with the true cost of content plus margin, it should be closer to the ARPU of Netflix (Figure 51). The factors that make Disney+ and Hulu ARPU in the long term lower than Netflix is the bundle potential that Disney has and is already implementing, which diminishes per service ARPU. In accordance with the results from the survey we performed, the ARPU applies a risk factor that considers if users will be shown advertising (30% discount on the monthly fee) or not. When discussing the ARPU of ESPN+, investors must bear in mind that although ESPN has been a cash cow for Disney it is also the most expensive channel to operate due to the cost of owning the rights for certain sports events. In 2019 it is estimated that approximately $22 billion were spent on sports rights (Media.sportsbusiness, 2019). Currently it is estimated that the affiliate fee per subscriber that MVPD's pay for ESPN is between 7 and 12 dollars, this cost will also exist in the DTC solution. However, currently ESPN+ doesn't transmit certain expensive sports such as NFL. In the future, if ESPN+ becomes the main content provider, it will raise its subscription fees in order to be able to support the sports rights licenses. Regarding the number of subscribers per platform, besides assuming that the cord cutters will subscribe to the respective DTC content providers (from 2028 onwards the total amount of subscribers lost by traditional channels isn't totally absorbed in DTC), there is also an expected organic growth percentage that accounts for factors such as the population with access to online content. From 2030 onwards, the subscriber growth is consistent with the expected GDP growth.

Regarding the advertising revenues, the model assumes that the per subscriber advertising value is 50% the value currently received in the national cable channels and 50% from the international cable channels and it goes in line with the world inflation (regarding the per subscriber ad value). The other revenue factors of DTCI are expected to converge to 0 as they represent Home Entertainment and

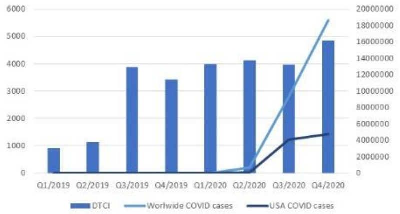

Figure 54 - COVID cases and DTCI revenues.
Source: Analyst estimates, 2020

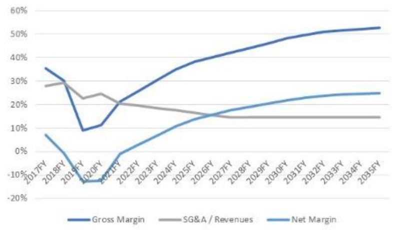

Figure 55 - DTCI Margins.
Source: Analyst estimates, 2020

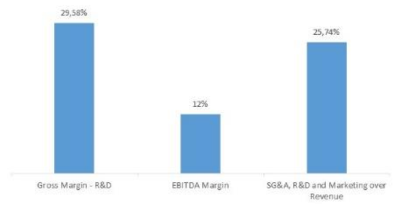

Figure 56 - Netflix's 2019 operating margins.
Source: Analyst estimates, 2020

Average KPI	All US International Cable Comps	TWDC DTCI
Revenue from International	6 974	5 425
EBITDA Margin	17%	N/A
Overall Company's ROIC*	9,64%	-3,09%
Overall Company's WACC	5,33%	9,06%

Table 9 - KPI's for DTCI segment and US international cable channel providers.
Source: Analyst estimates and Bloomberg, 2020

DTCI	2020FY	2025FY	2030FY	2035FY
Revenues	16 967	43 036	67 955	89 463
Gross Margin	11%	38%	48%	53%
Core Result	(2 091)	5 884	14 812	22 343
Net Margin	-12%	14%	22%	25%
FCF	4 317	2 346	10 779	18 059
WACC	9%	11%	12%	13%
ROIC	-6,52%	11,47%	20,92%	24,69%
Investment Rate	306,47%	60,12%	27,22%	19,17%
Growth	-20,00%	6,90%	5,70%	4,73%

Table 10 - KPI's for DTCI segment.
Source: Analyst estimates, 2020

Regression with y= television rights and content and x= revenues		
βu	0,43218373	0,00
σ	0,04532548	#N/A
R2	0,96805739	903,20
F stat	90,9184388	3,00
ssreg	74169030,7	2447326,36

Table 11 - Regression analysis between Revenues and Television costs rights and advances.
Source: Analyst estimates, 2020

TV/SVOD distributing licensing which are areas where Disney is disinvesting. The overall forecasted revenues are presented in Figure 52. The 2035 subscription revenue is represented in Figure 53.

COVID is also not affecting DTCI revenue as, through the same analysis performed in the previous segments, no correlations are visible, Figure 54**.**

Margins, Rates and Assets & Liabilities

Regarding DTCI, current operating margins are not reflecting a steady status. Firstly, due to the consolidation of TFCF and Hulu, the 2019 results were misrepresented. Due to the recent additions of Disney+ and the investments made in the platform (and also the other streaming solutions) the net income is as expected to be negative and will be so in the coming years as Disney keeps investing in the platforms. In 2020, Programming and Production Costs accounted for 58% of revenues, which is 10% higher than the results in Media Networks and the overall gross margin was almost 20% lower in DTCI (Figure 55). If we included SG&A expenses the DTCI net margin is negative and Media Networks was 28% which implies that the margins in DTCI do not represent the long-term status. The long-term net margin the model assumes for DTCI is slightly larger than the Media Networks, in order to represent the higher control from content creation to the end user on an OTT market. The SG&A margins for DTCI, in comparison to Netflix (Figure 56) are lower, this is because of the conglomerate effect on DTC. As Mr. Walt Disney predicted in the original business model, each division works for one another and therefore DTCI does not need the same investment in marketing as Netflix. However, the competition that is present and the one that will still enter, this market is bound to become more competitive than the Media Networks and the marketing costs (included in SG&A) and costs to acquire external content reflect this competitiveness. Information solely on the international cable channels is presented in Table 9 and general DTCI KPI's are presented in Table 10.

Regarding the return on assets that this segment has, the model assumes it as represented 2/3 by Disney's regression beta and 1/3 of Netflix's unlevered beta. In this segment we did not assume a uniform split, as the only comparable firm is Netflix. The current WACC (2020) for DTCI is 9,06% and the ROIC -3,09%, due to the investment phase the firm is currently on. In the steady state the WACC is expected to increase to 13% (the model assumes all segments have the same capital structure) and the ROIC is expected to increase to 25%, which is representative of the value creation of DTCI. This gap is explained by the potential this segment has in developing. Through new forms of reaching the end user, with little to no intermediation. This result is consistent with our nominal g in the steady state being 4,7%, which is larger than the expected US nominal growth rate.

Regarding the sensitive caption of Television Costs, Rights and Advances, the same regression method used in MN was applied. Netflix with approximately 190 million users had, in 2019, $24,5 billion in content assets, for that reason, the model uses the higher interval from the CI (0,53) as the coefficient (Table 11).

Intangible assets in the DTCI are representative of character value, brands, international MVPD agreements and others. Although the latter is expected to decrease, the model contemplates an annual investment for intangible assets in order to cover the possibility of Disney acquiring certain characters or franchises.

Regarding NWC, as this business is heavily based on cash before service, as the subscriptions are paid in the beginning of the 30 day or 1-year usable period, the level of deferred revenue is quite high and the NWC activity acts as a financing source with a negative cash conversion cycle (Figure 57).

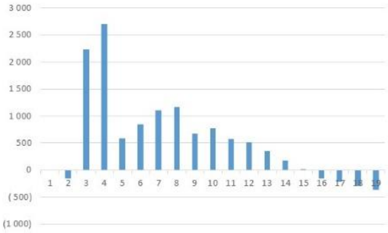

Figure 57 - DTCI investment in NWC, in millions.
Source: Analyst estimates, 2020

Figure 58 - EUR/USD exchange rate.
Source: Bloomberg, 2020

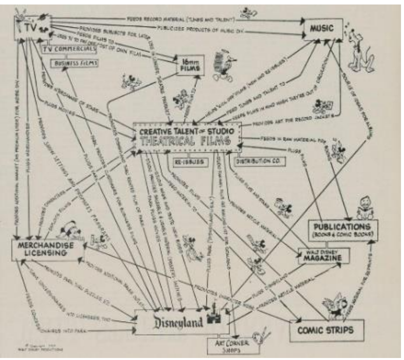

Figure 59 - Original business model planned by Mr.Walt Disney.
Source: Business Insider, 2015

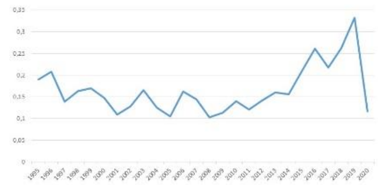
Figure 60 - Disney's box offixe Market share in the US.
Source: The numbers, 2020

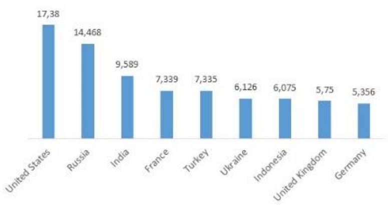

Figure 61 - Visits to Piracy websites in 2018, in billions.
Source: DataProt, 2019

Key Risks

COVID, is logically a risk that the company faces, especially in the PE&P segment. This risk is discussed in greater depth in the macro-overview segment.

For a global company such as Disney, exchange rate risk is significant, (Figure 58) however, the company, incorporates this risk in the regular derivatives hedging.

A risk that is tied to Disney's core business, is the theatrical content success. Figure 59 represents the original business model created by Mr. Walt Disney himself, and the key factor is every business unit works for one another and the core is the theatrical productions. If the theatrical productions do not do as well, the rest of the business units will also suffer, as less people will visit parks, subscribe to services and others. Disney has, in the past, had periods with less success than the competitors, for example the end of the 90's begging of the 2000's, where it was losing market share to Pixar (Figure 60). This effect has been accounted for, in the number of above $100 million box office films Disney is expected to release every year, which represents an average of good and bad years.

A risk that is tied to the increase in importance of the DTC business is the piracy impact and mooching[11]. DataProt estimates the annual global revenue lost in the movie industry, to Piracy, is between $40 and $97,1 billion, which is only expected to become worst as more content is provided in digital platforms. In 2018 DataProt found there were over 190 billion visits in pirate sites, the main country sources are presented in Figure 61. DataProt estimates 50% of these visits were to streaming services. In relation to mooching, Cordcutting has discovered that approximately 15% of people use other individual's credentials. Both this effects are already expected by DTC providers and the pricing already incorporates this event.

[11] Mooching is the event of a DTC user using another's person account credentials for viewing content, without paying.

Discount Rates

The valuation method chosen was the APV, for the advantages of modelling a varying debt structure. For this reason, the discount rate necessary is the cost of unlevered equity. Due to the structure of the company, with the 4 distinct segments, the valuation has been done with 4 different discount rates representing each BU's asset risk. For the tax shields an average of the segments was calculated for an Ru that represents the whole firm. Financial and non-core assets or liabilities were included at book value. The strategy chosen for achieving a discount rate for each business unit was to find comparable firms in each industry and average the unlevered betas. To obtain a true beta for Disney's segments we combined the industry competitor's beta (Table 12) with Disney's beta obtained from a regression with 5 years' monthly data against the S&P500 (Table 14). We weighted the 2 beta sources in different manners, depending on the segments competitors, this way the industry specific beta we obtain, includes a risk discount due to the conglomerate effect (Gatzert, Schmeiser 2011). When obtaining Disney's beta from the regression the beta of debt used for un-levering was obtained through the CAPM with the risk-free rate of 2,84% consistent with a 10Y US treasury bond plus inflation and an MRP estimated by KMPG assets. The cost of debt was calculated in consistency with Corporate Default and Recovery Rates, 1920-2011, with a YTM of 2,14% which represents a weighted average of 1-30Y Disney public traded bonds (Table 15).

The summary of each segment β_U and R_U is presented in Table 12. This table already includes the beta of Disney through the regression (1,08) and the average unlevered beta for the comparables presented in Table 12.

Regarding the continuing value, each business unit has a different ROIC and reinvestment rate therefore a different perpetuity growth rate. The ROIC and g are presented in Table 13.

	βu	Ru
Media Network	0,87	8,72%
Parks, Experiences & Products	0,93	9,12%
Studio Entertainment	0,79	8,19%
Direct to Consumer & International	0,89	8,83%

Table 12 - Comparable firms data.
Source: Analyst estimates, 2020

βe	1,08
σ	0,14
R2	0,51
F	61,92
ssreg	0,14

Table 14 - Regression of Disney's stock returns against the S&P500.
Source: Analyst estimates, 2020

Maturity	Billions	Yield
-1 to 2 yrs (10)	3,86	2,04
-2 to 3 yrs (8)	1,24	1,96
-3 to 5 yrs (22)	6,82	2,27
-5 to 7 yrs (20)	7,82	2,60
-7 to 10 yrs (18)	5,05	2,51
-10 to 20 yrs (39)	10,41	3,06
-20 to 30 yrs (22)	9,75	3,37
-30+ yrs (10)	4,68	3,71
	53,15	**2,75%**

Table 15 - Disney's bond issuances.
Source: Bloomberg, 2020

	ROIC	Growth
Media Networks	6,93%	-0,32%
Parks, Experiences and Products	19,98%	4,48%
Studio Entertainment	13,13%	3,89%
Direct to Consumer & International	24,69%	4,73%
Corporate	-27,91%	2,89%
Aggregate Operating Excluding Corporate	17,66%	3,52%

Table 13 - 2035 forecasted perpetuity growth and ROIC.
Source: Analyst estimates, 2020

Sensitivity Analysis

We performed a sensitivity analysis to understand how sensitive each segment is to variations (of 0,5% each way) in their cost of assets and the growth rate on the perpetuity. We aggregated the results in order to visualize the possibilities of share price in accordance to the changes in these parameters. The results are presented in Table 16. The highest possible share price in this analysis came to $666 which represents an increase in all segments g's of 1,5% and a decrease in each Ru of 1,5%. The opposite scenario leaves us with a share price of $120.

Share Price	-1,5%	-1%	-0,5%	Δ g	0,5%	1%	1,5%
-1,5%	243	267	298	339	400	494	666
-1%	212	229	252	281	320	377	466
-0,5%	186	200	216	237	265	302	355
Δ Ru	165	176	188	204	224	249	284
0,5%	148	156	166	178	192	211	235
1%	133	139	147	156	168	182	199
1,5%	120	125	131	139	148	158	171

Table 16 - Sensitivity analysis on Disney's share price.
Source: Analyst estimates

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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[If applicable, it shall be added: *"While preparing the report, the author may have performed an internship (remunerated or not) in The Walt Disney Company. This Company may have or have had an interest in the covered company or security"* and/ or *"A draft of the reports have been shown to the covered company's officials (Investors Relations Officer or other), mainly for the purpose of correcting inaccuracies, and later modified, prior to its publication."]*

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THE WALT DISNEY COMPANY

COMPANY REPORT

MEDIA & ENTERTAINMENT

4 JANUARY 2021

BERNARDO PATRÍCIO & DINIS MARTINS

40665; 40796

Disney: Equity Research

- Media Networks has been the biggest cash cow segment of Disney for the past years, however the paradigm is changing due to the cord-cutting trend, which has decreased cable subscribers.
- In the PE&P segment will be impacted by the implementation of the new dynamic and heavy price model, and as soon as the population begins to be vaccinated for Covid-19, on a large scale, we will see this segment returning to its cash cow status.
- With the introduction of the new cinematographic content distribution model, Studio Entertainment segment will see major improvements in terms of ROIC and Margins, as more and more people will watch films on the streaming platform (Disney+).
- DTCI is Disney's segment that most increased in the past years 2 years (5x). Disney+ exceeded all expectations reaching 72 M users worldwide in the first year. With Hulu in 2021 expanding to other geographies, our projections for all DTC solutions make this segment the most valuable Disney asset in 2035.
- Based on the APV valuation, The Walt Disney Company price target for 2021FY is $204,05. As of the 4th of January of 2021, the closing price was $181,18, meaning it is trading at a discount of 9,3%. Our final recommendation is to HOLD.

Company description

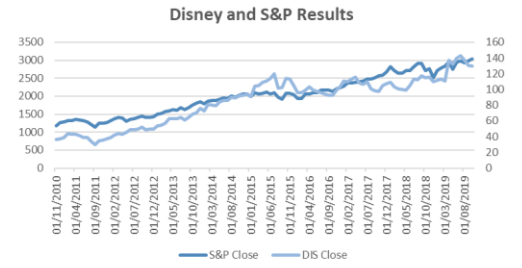
The Walt Disney Company is a Media and Entertainment company founded in 1923 that operates worldwide in Media Networks, Theme Parks & Experiences, Theatrical Content and Streaming Services.

Recommendation:	HOLD
Price Target FY21:	204.05 €
Price (as of 4 Jan 2021)	181.18 €

Yahoo Finance 04/01/2021

52-week range (€)	79.07-183.40
Market Cap (€B)	327 403
Outstanding Shares (m)	1810

Source: Bloomberg



Source: Yahoo Finance

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Company Overview

The Walt Disney Company has built a diverse empire since its beginning in the 1920s, creating a considerable range of lucrative products in a number of marketplaces. As the largest mass media conglomerate in the world, Disney is best known for its film and TV productions, theme parks and the recent addition of Disney+ and Hulu to their portfolio. Together with its subsidiaries, Disney is a diversified worldwide entertainment company with operations in four business segments: Media Networks; Parks, Experiences and Products (PE&P); Studio Entertainment; and Direct-to-Consumer & International (DTCI).

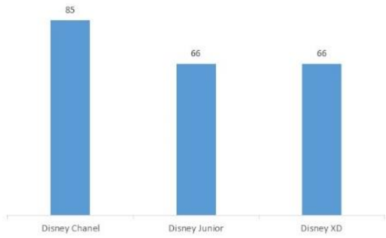


Figure 1 - US Subscribers to Disney Channel channels in 2020, in millions.
Source: TWDC 2020 Annual Report

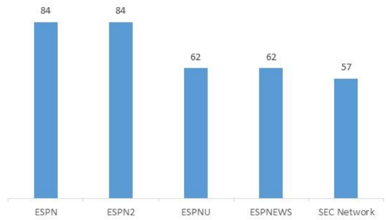


Figure 2 - US Subscribers to ESPN channels in 2020, in millions.
Source: TWDC 2020 Annual Report

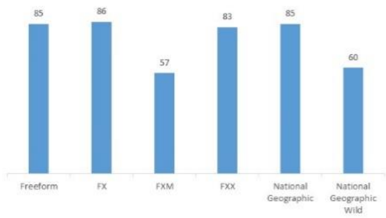


Figure 3 - US Subscribers to Freeform, Fx and National Geographic channels, in millions.
Source: TWDC 2020 Annual Report

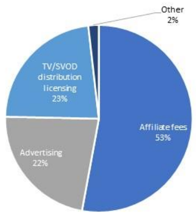


Figure 4 - 2020 Media Networks Revenue, in millions.
Source: TWDC 2020 Annual Report

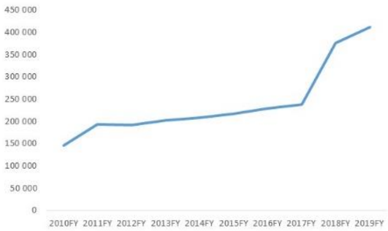


Figure 5 - Revenue from the top 7 companies in the Media Networks industry, in millions.
Source: Bloomberg, November 2020

Media Networks

Business Model

This segment operates mainly in two areas, Domestic Cable Networks and Broadcasting. The first manages cable channel brands such as Disney (Figure 1), ESPN (Figure 2), Freeform, FX and National Geographic (Figure 3). Each of these brands (except for Freeform) operate several channels that target different age groups or different sport preferences (ESPN). Regarding the Broadcasting operation, TWDC[1] includes a domestic broadcasting network and eight domestic television stations. The company owns ABC Television Network which reaches, in partnership with the affiliate stations (approximately 240), the whole (The Walt Disney Company 2019) US television households, which currently are 120,6 million (Statista, 2019). In aggregate the local television stations owned by Disney, reach 20% (TWDC, 2019) of the US TV households. Both in DCN[2] and the Broadcasting operation, there is television production, distribution operations and acquisition of programming rights. The in-house content creation besides being used in the Media Networks and DTCI[3] segments are also in some situations licensed to third parties. Regarding the business model, revenues from this segment are mostly derived from Affiliate fees, Advertising and TV/SVOD[4] distribution (Figure 4). Affiliate fees are charged to MVPDs[5], digital OTT[6] services and television stations affiliated with ABC Network. These fees are defined in multi-year licensing agreements with the counter parties that define a fee per subscriber. The Advertising revenue comes from the sale of advertising time on the domestic network and on the cable channels. The only advertising revenue

[1] The Walt Disney Company
[2] Domestic Cable Networks
[3] Direct-to-Consumer & International
[4] Subscription Video on Demand
[5] Multichannel Video Programming Distributor
[6] Over-the-top

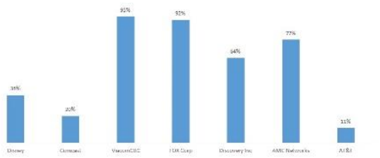


Figure 6 - Percentage of Media Networks revenue from total company revenue.
Source: Excel model calculations on each company's annual report

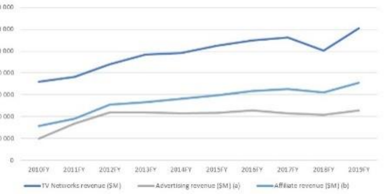
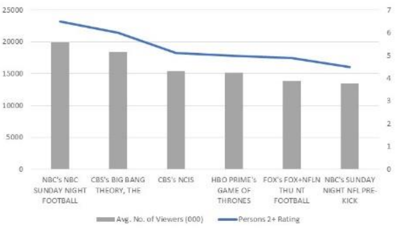


Figure 7 - Evolution of Media Networks industry Revenue, in millions.
Source: Bloomberg, 2020

Average KPI	All MN Comparables	TWDC MN
Revenue from MN	15 952	24 827
EBITDA Margin	34%	28%
EBITDA Margin, Excluding only Cable Providers	27%	N/A
Overall Company's ROIC*	8,91%	8,77%
Overall Company's WACC	5,53%	8,64%

Table 1 - Revenue, EBITDA margin, ROIC and WACC from MN industry and TDWC'S MN segment.
Source: Excel model calculations



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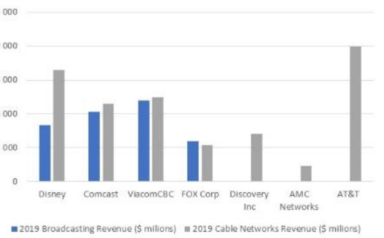
Source: Nielson, 2020



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Source: Each company's 2019 annual report

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Source: Nielson, 2020

that is reported in Media Networks is the one that is ratings-based, the non-ratings based type of advertising is reported in DTCI. This revenue is affected by the number of viewers and the rating of each show, which are measured by Nielson. Finally, revenue from TV/SVOD, originates from the sale of the rights to use television programs and from content transactions within the Company. Regarding the main expenses, the operating expenses are the most predominant and they are mainly programming and production costs.

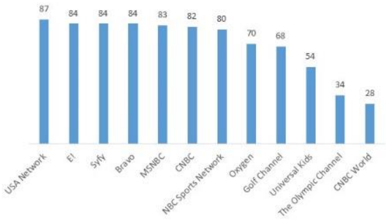
Market Overview and Competitors

The US Media Networks segment is populated in material terms by 7 firms. The 2019 revenue of these firms was $418 bn and the evolution is presented in Figure 5. The revenue presented in the exhibit represents all operations, not only regarding the Media Networks segment. This allows us to understand that the companies that operate in this segment are large conglomerates that benefit from synergies with other business segments. We can see in Figure 6 the percentage of each company's revenues that are represented by their US Media Networks operation. Figure 7, represents the evolution of TWDC's MN segment revenue. Average Revenue of the 7 companies and average EBITDA Margin is presented in Table 1[7]. The lower result in EBITDA margin, presented by TWDC is due to being active in the Cable and Broadcasting environment, the latter having worst margin results in comparison. Regarding, ROIC and WACC, we are comparing MN results with the whole of the comparable company's average industry results and we can see that MN WACC is above the average and the value added is smaller than in the overall Media and Entertainment industry. The targeted population that these companies aim is the US households with TV access which according to Nielson in 2020 is 120,6 million. The major broadcasting channels, ABC, NBC, CBS and FOX reach almost all this population according to the respective annual reports. The cable channels reach is not the whole US households with tv, and it depends widely on the type of channel.

As this Disney segment operates several channels with different content, from sport to news, all other channels prove themselves as a competitor in terms of splitting viewership. Channels compete for viewers and subscriptions, if a Disney competitor increases its market share, Disney's branded channels viewership decreases. Thus, this advertising revenue decreases proportionally (TV-Broadcasting Competition and Advertising, Didier Laussel et al) due to the viewership being directly tied to the ratings-based advertising (Figure 8). The affiliate fees will also likely decrease as MVPDs offer a lower per subscriber value.

Regarding the Broadcasting competitive environment, Disney's ABC rivals with Comcast's NBC, Viacom's CBS, FOX and CW Network (joint-venture between

[7] The * means that not all the 7 comparables had available information. Discovery INC, AMC Networks and AT&T were excluded.



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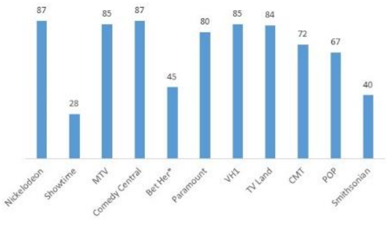
Source: Comcast's annual report, 2019



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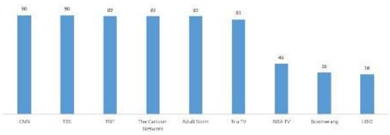
Source: Nielson, 2018



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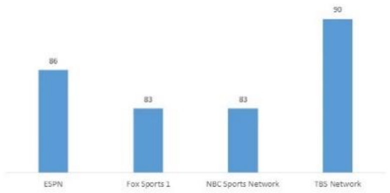
Source: AT&T annual report, 2019.



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Source: Nielson, 2018

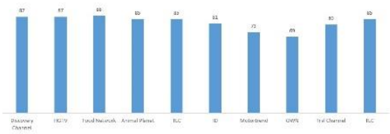

Figure 15 - Discovery Corporation channel subscribers in 2019, in millions.
Source: Discovery Inc annual report, 2019

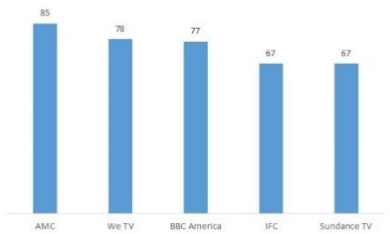

Figure 16 - AMC channel subscribers in 2019, in millions.
Source: AMC annual report, 2019

ViacomCBS and AT&T). Apart from CW, all these channels reach approximately the whole US TV households, the only difference being the reach of the local branded broadcasting channels, where Disney's 20% reach is below the competitors. When analysing the total broadcasting environment, the values in Figure 9 go in hand with the viewership results (Figure 11), as Viacom's CBS was the most watched channel in 2019, followed by Comcast's NBC and Disney's ABC. FOX closely follows ABC and the CW Network is clearly less important than the other 5 broadcasting networks.

One of the biggest competitors for Disney is Comcast, which owns several channels presented in Figure 11. When comparing total US households' subscriptions between TDWC and CMCSA, the number is quite similar, although the latter has more channels.

Viacom CBS also operates cable channels, such as: Showtime, Nickelodeon, Comedy Central, MTV and others. We can see in Figure 12[8], the number of American households who have access to them.

AT&T owns the brand Turner which itself owns CNN, TBS, TNT, Cartoon Network (Figure 13) and others, AT&T also owns Home Box Office (HBO). Although CNN is a pay cable channel it competes with the traditional broadcasters, and reaches 96,2 million households (according to CNN). Regarding the cable channels AT&T does not have the highest number of subscribers or viewers (Nielson, 2019), however the fact that it owns several channels means cable revenues are the highest throughout all competitors. The fact that the AT&T group includes telecommunication offerings, which risk wise resemble a utility, the model doesn't use AT&T's beta as a comparable to the MN segment.

Fox Corporation is an enterprise that resulted from a spinoff of Twentieth Century Fox. In the cable channels FOX News reached 84 million households (FOX Corporation Annual Report, 2019) and FOX Sports is a strong competitor for ESPN as we can see in Figure 14.

Disney also faces competition from Discovery Inc, which owns several channels such as Discovery Channel, TLC, HGTV, Animal Planet, Food Network and others. We can see figures from some of Discovery's cable channels in Figure 15. They are quite similar with competitors as certain genres of cable channels are usually part of the same packages offered by MVPDs.

There are also smaller competitors such as AMC (Figure 16), Sinclair Broadcasting Group, Tegna or Sony (international cable channels) which are some sort of competitors, however due to size, overall operations or materiality are not included in the comparable group for valuation purposes.

[8] Due to lack of information data is for 2018 instead of 2019.

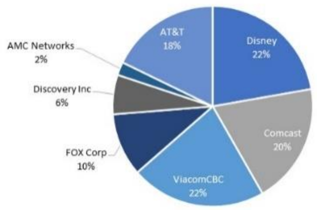

Figure 17 - Market share of revenue in the US Media Networks segment, in 2019.
Source: Each company's 2019, annual report.

Regarding the overall revenues between segments of each of the competitors, Disney was the second strongest in 2019 in the cable networks segment (Figure 9). When adding the total revenues (only including the major competitors discussed above and not including Tegna and Sinclair Broadcasting Group), Disney has the most percentage of total revenues closely followed by Comcast, AT&T and Viacom (Figure 17). When we compare EBITDA margins, we can see that the values are quite similar with the exception for the companies that only operate in the cable channels segment, which provide a higher EBITDA margin in comparison with broadcasting networks (Figure 18).

A final note on the way the competition affects Disney's future performance, the segment has reached a steady state in the past years, with similar Gross and Net Margins and also a small revenue growth (2019 and 2020 are exceptions due to the consolidation of TFCF channels). The way the competition operates is equal to TWDC with Affiliate Fees and rating based advertising, and there is nothing to believe market share will change between these companies. The changes in the future of this segment, which are further explained in the drivers' part of the report are solely explained by the deterioration of the overall MN market in the US.

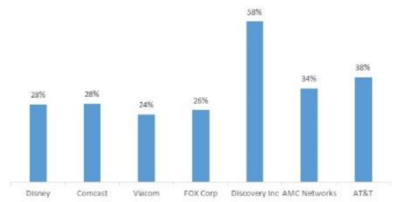

Figure 18 - EBITDA margin, 2019.
Source: Analyst estimates

Valuation

The revenue forecast for Media Networks and DTCI are dependent due to the Cannibalization effect, representative of the increase subscription numbers of DTC solutions in comparison with traditional Media Networks. This effect is tied to the cord cutting phenomena. However, DTC is expected to achieve an organic growth beyond the users that are transferring from Media Networks such as the users that are gaining access to online video content. KPI's are presented in Table 2.

MN	2020FY	2025FY	2030FY	2035FY
Revenues	28 393	22 746	19 873	17 656
Gross Margin	39%	40%	40%	40%
Core Result	5 981	4 662	4 047	3 554
Net Margin	21%	20%	20%	20%
FCF	8 785	5 090	4 224	3 718
WACC	9%	10%	11%	12%
ROIC	10,66%	8,72%	7,77%	6,93%
Investment Rate	-46,86%	-9,18%	-4,38%	-4,60%
Growth	-5,00%	-0,80%	-0,34%	-0,32%

Table 2 - KPI's for MN segment.
Source: Analyst estimates, 2020

Trends

- Cord-Cutting

This phenomenon started around 2007 and it consists of traditional pay tv channels, losing subscribers, Figure 19. (Cordcutting, 2020). Cord cutting started around the same time Netflix launched its SVOD service. The lower cost offering combined with the financial crisis started the seed for a movement that over the years has led to 31,2 million cord-cutters in the US alone (financial reasons are the most crucial in the decision to cord cut, Figure 20. According to TechCrunch, cord cutters will reach 46,6 million US households in 2024 which would mean there would be only 62 million cable US TV households that year (due to slower decrease in subscribers in 2020, when comparing with CordCutters data, the model does not assume that drastic decrease, it assumes that there will be 70 million US TV households in 2024 in the drastic scenario). TWDC has been suffering this cable subscribers decline in the past years in its own channels and

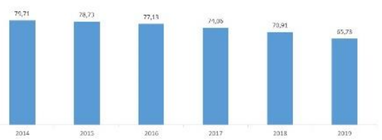

Figure 19 - DirecTv, Dish, Charter and AT&T aggregate subscribers.
Source: Analyst computations on Leichtman reseach group data, 2019.

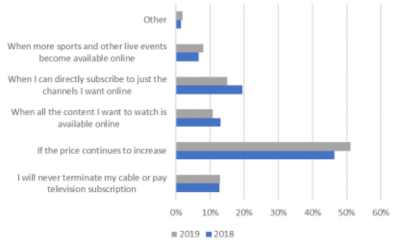

Figure 20 - Reasons for cancelling cable subscriptions.
Source: Limelight Network

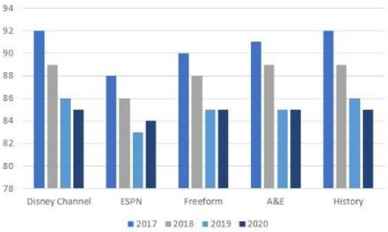

Figure 21 - Evolution of TWDC's cable subscribers, in millions.
Source: TWDC Annual Reports

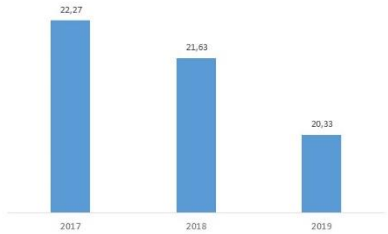

Figure 22 - Leading cable networks in the United States from by number of primetime viewers.
Source: Nielson, 2019

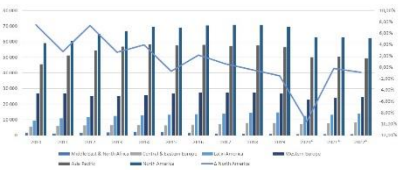

Figure 23 - TV advertising spending worldwide from 2000-2022, by region. Also shown, the yearly US variation.
Source: Zenith, 2019

on equity investments channels such as A&E and History, Figure 21. This effect has also been noted in the number of primetime viewers in the leading cable channels, Figure 22. In 2020, due to Covid-19 and its effects in the cancelling of live sports and the financial impact, cord-cutting has been the highest ever with a 7,5% drop in cord subscribers (eMarketer), which was double of what was expected. Logically, this cord cutting effect will punish cable providers and therefore will also decrease affiliate revenues for cable operators. eMarketer expects that cord cutting will affect ad revenue for cable channel operators, the decrease in ad spending is expected to decrease from $70,59bn in 2019 to $67,48 bn in 2024. From Zenith (Figure 23), we can observe that North America and the Asia Pacific region have been decreasing in the past years the expenditure on tv advertising, however in Europe it is still growing, this tendency is expected to invert as streaming platforms become more common in Europe. The fact that all major Media Network companies have launched or will launch (Discovery Inc) a streaming platform with their content, is the proof that the traditional pay-tv model is dying, and that companies are adapting. According to our survey, 45% of respondents would cancel cable for only streaming platforms which goes in line with the overall market feeling. This tendency is reflected on the model with the decrease in Media Networks subscribers and International cable subscribers. In order to reflect the uncertainty regarding the pace of this trend, in the model, the decrease in subscribers takes in consideration 3 possible rhythms of cord cutting.

- Cannibalistic Tendency

The definition commonly used is when a company “eats” into its own market by introducing a new product to an existing line or an established brand. (Tammy Drezner, Cannibalization in a Competitive Environment). The SVOD and vMVPD solutions created by traditional Media Network companies such as TWDC, Comcast, Viacom and AT&T enter this definition (The Motley Fool, 2019). The investment in streaming solutions is to capture clients that are fleeing from traditional pay-tv, so, the only way this change is beneficial for the companies above mentioned is if margins or pricing are better in the Direct-to-Consumer environment than in the traditional Media Networks (US and International). Currently, the margins in the DTC scenario, taking Netflix as the best proxy, are far from the levels that TWDC’S MN cash cow segment has reached. The company’s MN segment EBITDA margin in 2019 was 27,5% in comparison with Netlflix’s 12%. However, MN has a stable EBITDA margin in the past years due to being a consolidated segment, and Netflix has been improving for the past years (averaging 4% annual growth) its EBITDA margin. On a steady state, DTC solutions are expected to increase the EBITDA margins, with the consolidation of the market. However, against contrary belief, the margins are not bound to heavily

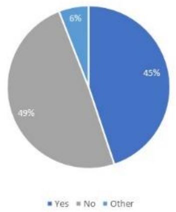

Figure 24 - Would you cancel cable or satellite services and opt only for streaming?
Source: Analyst estimates, based on survey, 2020.

overcome the steady-state MN margins, as competition for consumers and content is much larger. For non-traditional Media Network brands such as Amazon, Apple or Netflix this effect isn't presented as they do not own cable or broadcasting operations that can suffer from cannibalism. In the survey we realized, the respondents were divided if they were cancelling all their cable subscriptions for Pay-tv (Figure 24). If we only took USA residents responses the Yes answer was 82%, which hints that the cord cutting movement is more advanced in the USA. The model represents this trend as the subscribers lost by traditional pay-tv channels are absorbed by the expected counter-parties in the streaming solutions and the margins for DTCI evolve during the years to the steady state which is slightly higher than the MN steady state.

	Disney	ESPN	Freeform	FX	NG
Drastic Change to DTCI	-3,76%	-3,76%	-3,76%	-3,76%	-3,76%
Modest Change to DTCI	-2,60%	-1,52%	-1,88%	-2,60%	-2,60%
Slight Change to DTCI	-1,00%	-1,00%	-1,00%	-1,00%	-1,00%
	ABC National	ABC Local	TV/SVOD Distrubuting Licensing	Advertising	Affiliate Fees
Drastic Change to DTCI	-1,50%	20,00%	-25,00%	-1,00%	-1,00%
Modest Change to DTCI	-0,50%	20,00%	-15,00%	-0,50%	-0,50%
Slight Change to DTCI	-0,20%	20,00%	-5,00%	0,00%	0,00%

Table 3 - Model estimates for each scenario.
Source: Analyst estimates

Revenue Drivers

With the concepts approached above, in the trends, we can formulate some visions regarding the future Revenues for Media Networks and DTCI. Due to the uncertainty on the pace that people will adopt DTC solutions and cancel cable subscriptions, the model contemplates a risk factor where we assume there is a 65% probability of a drastic change from MN to DTC, 25% modest change and 10% slight change (Table 3). The percentages reflect our view, in relation to the past cord cutting events and future expectations on the total number of cable subscribers. Regarding Media Networks revenue, sources are separated in 4 captions. Other, represents the sale of National Geographic Magazines, which is becoming a legacy business (Figure 25). Due to the legacy status, no change in the number of subscribers is expected and the cost of the subscription will vary with expected US inflation. Regarding the TV/SVOD licensing, the company has stated that it intends to stop licensing content to other companies as it wishes to maintain full control with its platforms in particular Disney's DTC solutions, this change will have different paces in accordance with the future state, for example, if the drastic change to DTC scenario is the future, a higher decrease in TV/SVOD licensing revenue is expected. The forecasted revenues are presented in Figure 26.

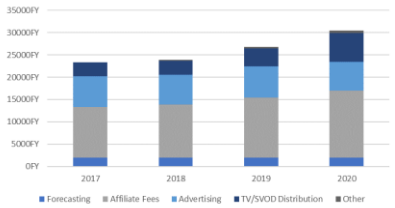

Figure 25 - Media Networks, revenue overview, in millions.
Source: TWDC Annual report

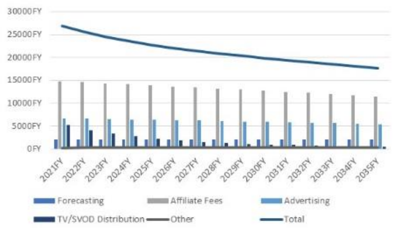

Figure 26 - MN forecasted revenues, in millions of USD.
Source: Analyst estimates, 2020

Regarding the most important captions for MN revenues, the value drivers are the number of subscribers, the average advertising fee per subscriber and the average affiliate fee negotiated per subscriber. Each channel negotiates a different affiliate fee per subscriber with MVPD's, the most expensive channel MVPD's pay Disney for is ESPN, reports say in 2017 it was paying $9 per subscriber and that value only increased from then onwards (Mywallst, 2020). ESPN is the largest sports channel in the US reaching in 2019 a daily average of 700 thousand viewers (Deadline, 2019). For model purposes we combined the affiliate fees and multiplied by the number of subscribers to reach the affiliate revenue. For the past years, affiliate revenues in Media Networks have kept climbing although the subscriber count has been decreasing, this has happened because the affiliate fees are negotiated periodically, and the revision of fees that goes in line with the decrease in subscribers has not happened yet. This trend will soon end, as MVPD's will not be able to pay as much carriage fees on a declining business. For that reason, the model contemplates a decrease in per subscriber value. In relation to the subscriber count, the expected decrease varies with the expected change to DTC for the cable channel viewers. In Figure 27, we can compare 2019 average affiliate fee's per subscriber. TWDC has the highest average affiliate fee's by almost twice of the average, due to ESPN (AT&T data includes international channels and therefore is excluded from the average). The model assumes this value will decrease, as the whole industry does. In the most drastic change, an expected decrease of subscribers is consistent with a 5-year average of the variation of the US population with cable. In the modest scenario the decrease is expected to be the average of Disney's past 4 years decrease of each cable channel and for the slight change, it is assumed a small decrease of a single percentage point (Table 3). The average advertising per cable subscriber is also presented in Figure 26. This value, due to the cord-cutting effect, according to eMarketer is expected to decrease over the years, and the model contemplates it. The value presented in Figure 27 for TWDC differs from the ones presented in the model, due to simplification purposes the model aggregates branded channels.

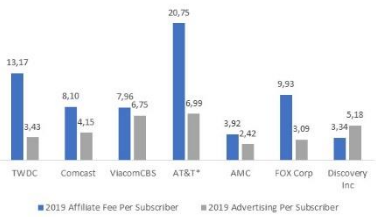

Figure 27 - 2019 Average per cable subscriber fee.
Source: Analyst estimates

For the broadcasting number of subscribers, the driver is the US population with TV access which is measured as a penetration rate of the whole population. Depending on the expected rate of change to DTC this penetration is expected to decrease. For the past 4 years, the number of TV households increased from 118 million to 121 million, it has been increasing in opposition to the cord cutting phenomena in the cable channels. For this reason, the decrease in Broadcasting Affiliate Fees and Advertising is slower than the cable counterpart, however we expect it to decrease, as users are starting to view these channels through on demand methodologies.

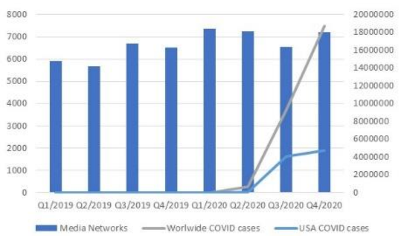

Figure 28 - MN revenues in millions and COVID cases.
Source: Analyst estimates

Covid-19 isn't affecting Media Networks revenue as, through an analysis on the quarterly earnings and number of Covid-19 cases in the US, doesn't demonstrate a negative correlation Figure 28.

Average KPI	All MN Comparables	TWDC MN
Revenue from MN	15 952	24 827
EBITDA Margin	34%	28%
EBITDA Margin, Excluding only Cable Providers	27%	N/A
Overall Company's ROIC*	8,91%	8,77%
Overall Company's WACC	5,53%	8,64%

Table 4 - KPI's on MN and industry data.
Source: Analyst estimates

Margins, Rates and Assets & Liabilities

Margins in the Media Networks segment are quite consistent with the rest of the industry (Table 4) and have been quite consistent over the past, therefore the margins aren't expected to change in the future and the model assumed that reasoning. There is not an expectation of improving operating margins as the market is already mature and investment is being targeted to DTCI. (Figure 29).

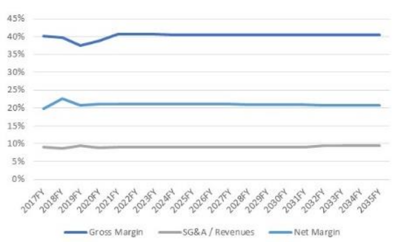

Figure 29 - MN margins.
Source: Analyst estimates

Brands	Ru
Disney MN	8,72%
Comcast	7,96%
Viacom	9,17%
FOX Corp	10,64%
Discovery Inc	7,47%

Table 6 - MN and comparables Ru.
Source: Bloomberg, 2020

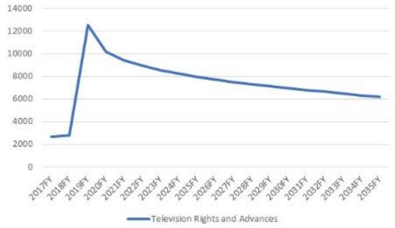

Figure 30 - MN television costs rights and advances.
Source: Analyst estimates

Regression with y= television rights and content and x= revenues		
βu	0,31	0,00
σ	0,09	#N/A
R2	0,80	4324,00
F stat	11,73	3,00
ssreg	219306215,67	56090802,22

Table 5 - Regression data on television costs rights and advances relation with revenues.
Source: Analyst estimates

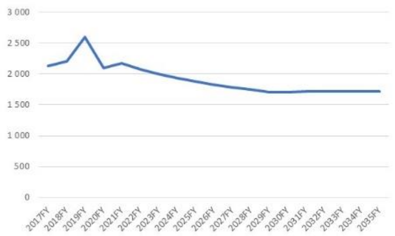

Figure 31 - NWC for MN segment.
Source: Analyst estimates, 2020

Regarding the return on assets that this segment has, the model assumes it is represented 50% by Disney's regression beta and 50% the average of the comparables that can be a proxy for the Media Networks beta, which are Comcast, ViacomCBS, Fox Corp and Discovery Inc. Although AT&T and AMC are discussed in the report for segment information, due to the small size of AMC and the internet providing business of AT&T, their beta does not reflect this market Table 6. The current WACC (2020) for TWDC'S MN is 8,64% and the ROIC 8,77% which signifies that no value is being added, and the segment is stagnated, in the steady state the WACC is expected to increase to 13,01% (the model assumes all segments have the same capital structure) and the ROIC is expected to decrease to 7,2%, which goes in line with our expectation of the MN destroying value. This result is consistent with our nominal g in the steady state being -0,3%, which means this segment will eventually seize to exist. This assumption is based on the continuous decrease of subscribers and on the demographic change that will happen (the oldest generation is the one that is maintaining their cable subscriptions).

When discussing assets in the Media Networks and DTCI segments we are mainly discussing Television Costs Rights, Advances and Intangibles (Figure 30). For the Media Network segment, a regression between revenues and these rights was tested, Table 5, and applied to the model (the higher interval of the 95% confidence interval was used, as to ensure a steady decrease of content). Regarding the intangible assets, they currently contain mostly MVPD agreements (that will decrease due to cord-cutting), character/franchise intangibles, copyrights and trademarks. As the segment is expected to decline no variation of intangible assets is recorded. When discussing the forecasting of NWC as a whole, both assets and liabilities which mainly depend on the revenues caption, are decreasing, thus the long-term cash-flow from NWC in Media Networks is quite small (Figure 31).

Parks Experiences and Products

Business Model

Under this business segment, TWDC operates six theme parks, recording 156 million ticket sales in 2019 around the world (Figure 32) (Figure 33), which include The Walt Disney World Resort in Florida, Disneyland Resort in California, Disneyland Paris, as well as ownership interest in resorts in Hong Kong (48%) and Shanghai (43%).

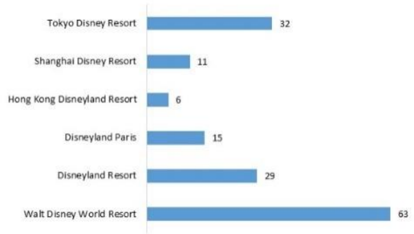

Figure 32 - 2019 attendance of each Disney Park, in millions.
Source: AECOM; Themed Entertainment Association.

Additionally, it operates Tokyo Disney Resort through an intellectual property license agreement with a third party. Furthermore, the Company manages several

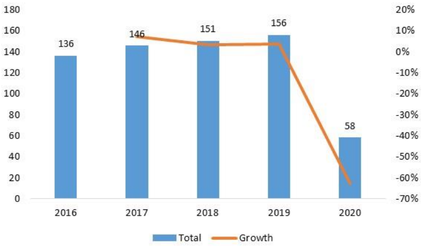

Figure 33 - Change in Disney's Parks annual attendance, in millions.
Source: AECOM; Themed Entertainment Association

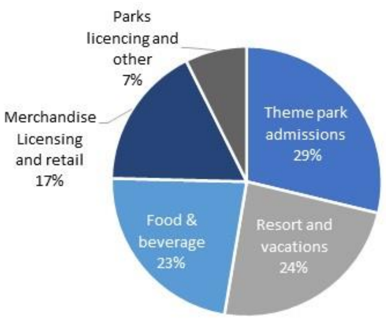

Figure 34 - Parks, Experiences and Products 2019 Revenue Distribution.
Source: TWDC Annual Report, 2019.

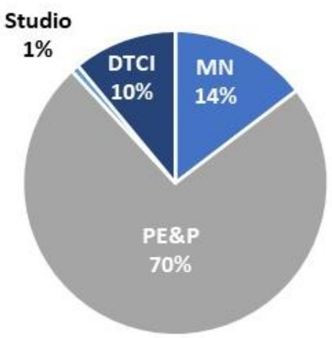

Figure 35 - Disney's employees distributed by segment.
Source: Analyst Estimates.

experiences, including 15 resorts, expeditions and adventures, all part of Disney Vacation Club.

Moreover, Disney has a four-ship vacation cruise line, the Disney Magic, Disney Wonder, Disney Dream and the Disney Fantasy, which operates out of ports in North America and Europe. The ships cater to families, children, teenagers and adults, with distinctly themed areas and activities for each group. Many cruise vacations include a visit to Disney's Castaway Cay, a 405-ha private Bahamian island. The Company is expanding its cruise business by adding three new ships. The first ship, the Disney Wish, is scheduled to launch in the summer of 2022 with the other two ships to be delivered from the shipyard in 2024 and 2025. These dates include impacts from shipyard delays due to Covid-19.

Consumer Products also represent a substantial share in this segment, which includes licensing of merchandise, such as toys, games, home décor, accessories, books and consumer electronics. Some of the major properties licensed by the Company include: Mickey and Minnie, Frozen, Star Wars, Disney Princess and Avengers. TWDC also sells Disney, Marvel, Pixar and Lucasfilm branded products through retail stores and internet sites globally.

Regarding this business unit, revenue comes mainly from selling theme park admissions, food, beverages, and resort vacation stays (Figure 34). Merchandise licensing and sales through their theme parks, cruises, resorts, retail stores and online stores also represents a significant income in this segment. Disney also manages real estate, such as the ESPN Wide World of Sports Complex (in Florida's park) which in 2020 hosted the remainder of the NBA season. Operating expenses consists primarily of operating labor (70% of their workforce is concentrated in this segment) (Figure 35), costs of goods sold, infrastructure costs, supplies, commissions, entertainment offerings and depreciation. It is also important to notice that, over 70% of the Company's capital spent has been in this segment, which is mostly for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure.

Theme parks traditionally have served as the reliable cash cow for TWDC. When the studios or cable networks faltered, the theme parks have been there to keep the company in the black. However, with the pandemic closing parks and largely keeping fans away from ones that have reopened, we are now observing other segments supporting the company.

Market Overview and Competitors

The theme park industry started in the US in 1955, and Disney was the first company to take a step in this direction (Figure 36). This sector (quite capital-intensive) has evolved considerably in the last decades, and today it is an industry of billions of dollars and that attracts people worldwide.

The industry is matured in developed economies, being dominated by a small group of companies with marketing expertise and with the necessary capital to renew and constantly improve their attractions/facilities, thus constituting an entry barrier for new players in the market. Regardless of location, the degree of ultimate success will always have as much to do with intangible elements, quality of design, efficiency of service and public fancy, as with anything else (Vogel, 2011).

Figure 36 - Original Disney tickets from 1955.
Source: Insider.com

Due to the Covid-19 pandemic, it is believed that theme parks' short-term plan will not be to maximize the number of visits to their parks, due to the restrictions imposed by governments, in addition to the increased fear of public that frequents these spaces of large agglomerations. At the same time, we will see a new ticket price model being implemented (Figure 37), a dynamic model that will take into account the day of the week, for example, and which will vary according to the number of attractions that the customer wishes to attend. This will allow customers to be reorganized and "spread" more efficiently, avoiding large concentrations of visitors during high season, giving those who can afford a better experience, while improving margins.

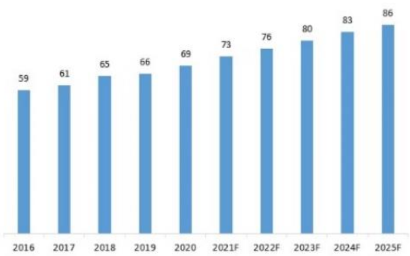

Figure 37 - Disney average ticket price, in dollars.
Source: Analyst Estimates.

Therefore, big players are betting on attractions where the public will be more connected and more involved in the experience that is going to a theme park, thus creating in them the desire to pay more, for something that creates a more immersive and exclusive experience. Disney has become a pioneer in dynamic ticket pricing, with the theme park industry largely beginning to follow in its footsteps.

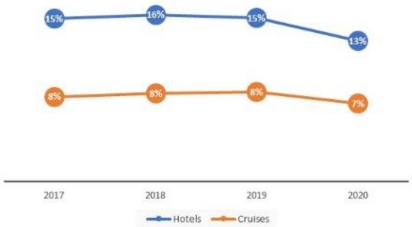

Figure 38 - Hotels and Cruises contribution to segment's revenue.
Source: TWDC annual report, 2020.

Furthermore, around 15% of this segment's revenue comes from their hotel and resort stays (Figure 38). In 2019, this industry has presented a revenue of $220 bn in the US alone, with an average daily rate of $131 and an occupancy rate of 67% (below Disney's rate of 87% in the same period) (Figure 39). Furthermore, in recent years, more and more people across the globe have begun to see travel as an integral part of life. Leisure travel spending has seen year-over-year growth over the past five years (CAGR of 4,6%). The hotel industry's market size has also benefited from this influx of travelers seeing consistent YoY growth of 4,3%.

Figure 39 - Hotel Occupancy rates by geographical region.
Source: Global Hotel Review, Page 2.

Disney is also present in the cruise industry, which represents around 8% of segment's revenue. This market has generated an estimated revenue of $45 bn in 2018, worldwide, a value which has grown by $15 bn over the last half decade (CAGR of 5% during this period). The industry made significant recovery after revenue fell below $25 bn during the 2009 global recession (Figure 40).

While the theme park, hotel and cruise industries have shown growth over the last decade, 2020 was a terrible year for companies operating in these markets. This was a direct result of the coronavirus pandemic, with the implementation of travel restrictions to curb the spread of the disease, international and domestic tourism came to a halt (Figure 41). Due to the consequences of this pandemic, this sector saw its revenues decrease by 86% and 61%, in 2nd and 3rd quarter of the previous fiscal year (Figure 42), contributing to a negative FCF (which will be addressed in the final chapter of this segment's analysis).

Major competitors to TWDC can be found in industries like entertainment and leisure, such as theme parks, resorts and cruise lines businesses.

Regarding the theme parks, Walt Disney Attractions are by far the most visited amusement facilities in the World, with a 30% market share in 2019 (Figure 43), followed by privately-owned companies, such as, OTC Parks, Fantawild Group and Chimelong Group all three of them being Chinese Amusement Parks, Merlin Entertainment in the UK and Parque Reunidos in Spain. This leaves us with four public US companies, Universal Parks & Resorts, Six Flags, Cedar Entertainment and SeaWorld Parks & Entertainment. The latter will be given a more detailed analysis as we have more information to scrutinize.

Universal parks & resorts is best known for attractions and lands based on famous classic and modern pop culture properties from not only NBCUniversal (owned by Comcast), but also third-party companies, for all of its parks. In August 2020, a report released by Deutsche Bank revealed that the Universal Orlando theme park had surpassed Disney World Resort in total attendance, amid coronavirus. (Bloomberg, 2020)

Six Flags Entertainment Corporation owns and operates regional theme and waterparks. The company's parks offer various thrill rides, water attractions, themed areas, concerts and shows, restaurants, game venues, and retail outlets.

Cedar Fair, together with its subsidiaries, owns twelve theme parks, four outdoor water parks, one indoor water park and five hotels in the United States and Canada.

SeaWorld Parks & Entertainment owns and operates twelve recreational destinations in the United States, including seven theme parks and five water parks.

We have also found interesting and relevant to compare this business segment of Disney to the biggest (in terms of Market Cap., Revenues and guests/passengers) publicly owned companies in the hospitality and cruise line industries.

Hilton Worldwide Holdings Inc. is a multinational hospitality company, that manages and franchises a broad portfolio of hotels and resorts. As of June 2020, its portfolio includes around six thousand properties with one million rooms in more than one hundred countries.

Carnival Corporation & Plc is a cruise line company that provides vacations to various destinations, operating several hotels and lodges as well.

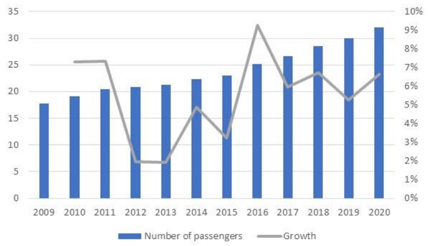

Figure 40 - Number of cruise ship passengers 2009-2020.
Source: Statista through Cruise Industry Outlook 2020.

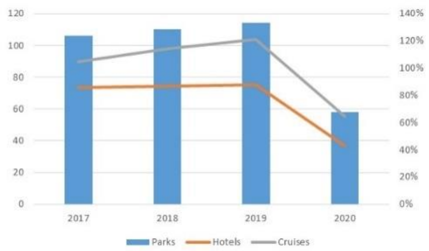

Figure 41 - Hotel and Cruise occupancy rates and parks attendance, 2017-2020.
Source: TWDC annual report, 2020.

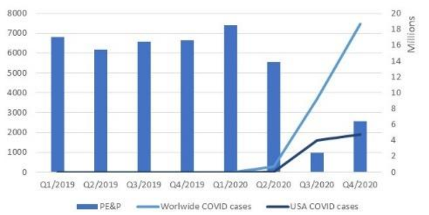

Figure 42 - PE&P revenues in millions and COVID cases.
Source: Analyst Estimates.

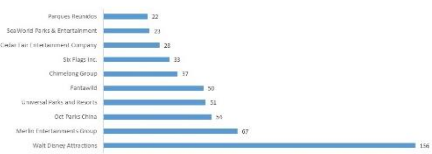

Figure 43 - Top 10 of the most visited theme parks in 2019.
Source: Statista through Theme / Museum Index 2019.

Finally, we must not disregard local competition from other corporations, for example, smaller hotels, oceanariums, resorts, basically companies operating in the hospitality sector, leisure activities and vacation related activities.

Drivers

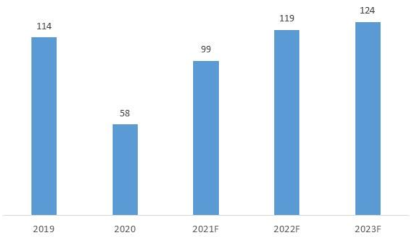

Figure 44 - Projected Parks' total admissions.
Source: Analyst Estimates

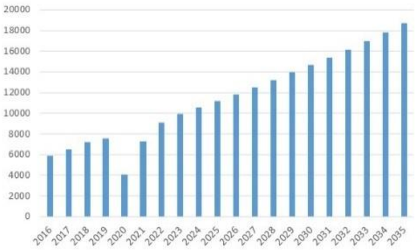

Figure 45 - Evolution of revenues, exclusively from parks admissions, in billions of dollars.
Source: Analyst Estimates.

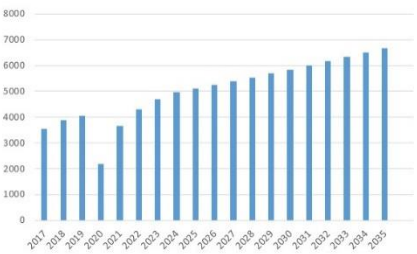

Figure 46 - Evolution of revenues, exclusively from hotel stays, in billions of dollars.
Source: Analyst Estimates.

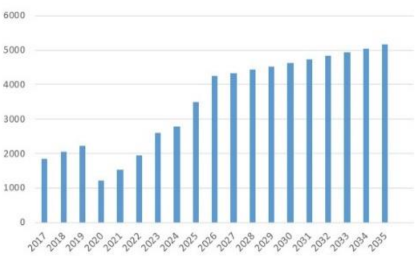

Figure 47 - Evolution of revenues, exclusively cruise passes, in billions of dollars.
Source: Analyst Estimates.

In order to obtain the most realistic and complete forecast possible, theme park admissions, and resort and vacation revenue, the two main sources of revenue in this segment, had to be dissected as much as possible.

Theme park admissions was calculated through the individual analysis of each one of the six parks that Disney owns (considering that Disney only owns 48% of Hong Kong's park, 43% of Shanghai's park and receives royalties from the Japanese park). Firstly, we need to look at previous attendance levels and growth for each park. In 2020, we observed an attendance decrease of 49% in each park, on average, so from 2021 to 2022 we are taking into account that we will observe a process of gradual normalization in relation to the number of visits, which we believe it will only return to the pre-Covid levels by the end of 2022 (Figure 44) and from that moment we apply the growth rate of the population of around 30 years of age in each of the respective (parks) geographic areas, as we believe it is the driver that better reflects the typical ticket buyer. We were able to get the average ticket price by dividing the Theme Park admissions by total attendance, and for forecasted years the expected inflation for each geography was applied (in more recent years, due to the change in their price strategy, from the current model to the more price heavy/dynamic model they plan on implementing, ticket prices will increase above inflation) (Figure 45).

Regarding Tokyo's park, the process was different, as we had to take into consideration that under the licensing agreement that Disney reached with OLC group in 1979, OLC agreed to pay 10% of its admission revenues and 5% of its food and souvenir revenues as royalty to Disney.

Regarding the second biggest stream of revenue in this segment, resorts and vacations, the sales from resort stays and cruise passes must be forecasted. In respect to resorts and hotels revenue, in the annual report we have the information regarding "Occupancy Rate", "Available Room Nights" and "Per Room Guest Spending", so this process of forecasting was fairly simple, as we applied the inflation rate to the average spending. Lastly, we presented the same assumption that we will not see the same level of attendance pre-Covid before 2023, assuming a gradual increase during that time (Figure 46). For the cruise line forecast, the method was similar, as it depends on the capacity of each ship, the occupancy rate and the average price per night. Currently, Disney owns four cruise ships (Dream, Magic, Wonder and Fantasy ships), and three ships will join the fleet in 2022, 2024, and 2025. It should be noted that the occupancy rate of

Disney cruises has exceeded 100%, through a more efficient management strategy to support greater demand in the summer and winter vacation months (which is common in this industry) (Figure 47).

Margins, Rates and Assets & Liabilities

PE&P	2019FY	2025FY	2030FY	2035FY
Revenues	26 225	36 300	46 001	55 845
Gross Margin	47%	55%	57%	58%
Core Result	5 235	8 554	11 150	13 773
Net Margin	20%	24%	24%	25%
FCF	3 800	5 256	8 300	10 687
WACC	9%	11%	12%	13%
ROIC	18%	22%	21%	20%
Investment Rate	27%	39%	26%	22%
Growth	5%	8%	5%	4%

Table 7 - KPI's for PE&P segment.
Source: Analyst Estimates

In terms of margins, this segment will not see drastic changes, and as mentioned earlier, having reached maturity, profitability levels will converge to the pre-Covid years. Still, it should be noted that the fact that Disney is betting on the implementation of the new pricing model will cause ROIC to see slight improvements (from 18% in 2019 to 22% in 2025) (Table 7), values far above the respective WACC, thus maintaining its cash-cow status that creates value both in the short and long term.

As a sector that needs constant and stable investment, the investment rate in steady-state will remain close to the current levels, with the majority of Disney's Net PP&E being concentrated in this segment (around 75%).

Furthermore, taking into account the competitors selected by us, we believe that a 50/50 ratio between Disney's regression beta and the average of the comparables is appropriate in order to obtain Ru (9,1%).

In conclusion, given all the variables addressed in the study of this bunisess model, we believe that it will maintain a growth above the long-term nominal growth (3,6%, IMF data for developed economies), of 4,5% in the steady-state.

Studio Entertainment

Business Model

Disney's Studio Entertainment segment is engaged in motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Studios (previously Twentieth Century Fox, acquired in 2019 for $71,3bn), Marvel, Lucasfilm, Pixar, Searchlight Pictures (previously Fox Searchlight Pictures) and Blue Sky Studios banners.

Figure 48 - Original poster of Disney first ever full-length movie - Snow White and the Seven Dwarfs.
Source: Wikipedia

TWDC produces and distributes full-length live-action films and animated films (Figure 48). In the US theatrical market, it generally distributes and market the filmed products directly. In most major international markets, the distribution is direct while in other markets the films are distributed by independent companies or joint ventures. As a result of Covid-19, the distribution strategy may change and certain films intended for theatrical release may be licensed to DTCI for use on Disney+ in certain territories. Some of these films will be only released theatrically in certain territories where Disney+ is not available yet.

Disney operates in the home entertainment market as well, distributing physical (DVD and Blu-ray) and electronic formats, usually three to six months after the theatrical release in each market. Physical formats are generally sold to retailers, such as Walmart and Target, and electronic formats are sold through e-tailers, such as Apple and Amazon.

In the television market, Disney licenses the films to cable and broadcast networks, television stations and other video service providers, which may supply the content to viewers on television or a variety of internet-connected devices.

This segment produces and licenses live entertainment events on Broadway and around the World. Lastly, the Disney Music Group commissions new music for the Company's motion pictures and television programs.

Revenue results derive mainly from licensing their motion pictures to theaters, sale of motion pictures in DVD, Blu-ray, and other electronic formats, TV/SVOD licensing fees, stage play ticket sales, and post-production services (Figure 49). Operating expenses consist primarily of amortization of production, participations, distribution costs and cost of sales.

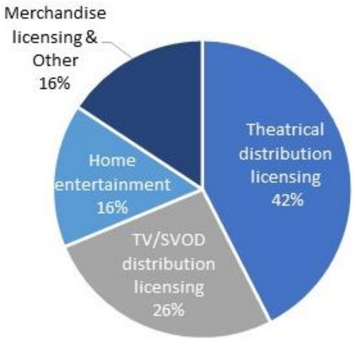

Figure 49 - Studio Entertainment 2019 Revenue Distribution.
Source: TWDC Annual Report, 2019.

Market Overview and Competitors

Since the dawn of filmmaking, that the American studios dominate the global film market. Being pioneers in this industry, these studios also benefited from the fact that they managed to perfect the art of large-scale distribution, as well as the production of high-quality films with great appeal to the public.

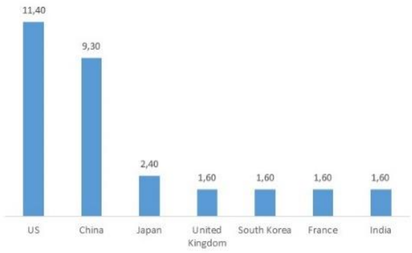

Figure 50 - Leading box office markets worldwide in 2019, by revenue, in billions of dollars.
Source: IHS Markit.

The United States is the country with the highest box office revenue, with sales surpassing 11 billion dollars in 2019 (Figure 50), with the 25 to 39 age group making up the majority of the movie theater audience. In terms of the number of tickets sold, the US are ranked behind China and India.

Today, the Big Five majors, Universal Pictures, Paramount Pictures, Warner Bros. Pictures, Walt Disney Pictures, and Columbia Pictures, consistently distribute hundreds of films every year into all significant international markets. It is nearly impossible for a film to reach a broad international theatrical audience without being picked up by one of the Big Five for distribution (Bloomberg BI, 2019).

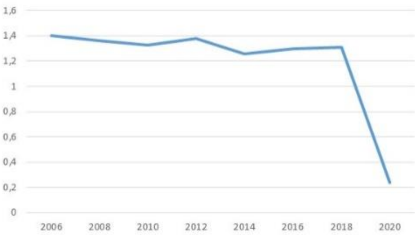

Figure 51 - Tickets sold for Disney movies 2006-2020, in billions.
Source: The-numbers.com

Disney has a long history of making box office hits. Between 1995 and 2020, its movies have generated over $39 billion in box office sales, which is good enough for first place among all studios in that period, with a market share above 30%, Disney pulls in more than double the box office revenue generated by Warner Bros. and Universal (Figure 51) (Figure 52).

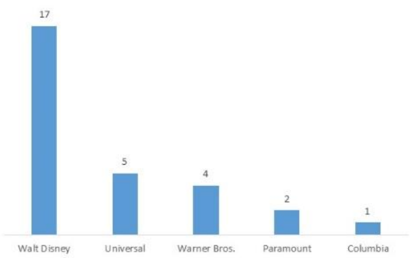

Figure 52 - Number of billion-dollar blockbusters by studio.
Source: The-numbers.com

Prior to Covid-19, the global film industry was presenting steady growth projections for the future (CAGR of 3%, 2014-2019) (Figure 53) with more than $42 billion in gross box office worldwide, in 2019. But without anyone foreseeing, we were taken by surprise by this pandemic that drastically impacted the film industry from its early stage, affecting ticket sales due to the fear of cinema lovers of attending crowded spaces and the closing of movie theaters due to governmental restrictions, with the aim of controlling the spread of the virus. In addition, box office revenue suffered as the number of movie releases diminished due to due to postponement or impossibility of production. The phenomenon can be observed in Figure 54, where the YoY revenue from this Disney's segment declined 55% and 40% in the 3rd and 4th quarter of 2020 fiscal year, respectively, being the second most affected business unit.

When we look back at 2020, we will realize that this pandemic has changed the industry forever, which can be evidenced by the first ever mutual agreement to shorten theatrical exclusivity windows (covered in the next chapter), the beginning of experiments with in-home premium video-on-demand and increased creation of subscription video-on-demand platforms by the Big Five to launch movies that were otherwise supposed to head to theaters. In mid-2020, the Walt Disney had its first experiment with *Mulan,* as a premium buy on its fast-growing streaming service, Disney+, also the Pixar film *Soul* debuted on December 25. Furthermore, WarnerMedia (owner of Warner Bros.) also announced that *Wonder Woman,* a movie that might have made $1 billion at the box office in a normal summer will land in theaters and on HBO Max simultaneously (Coyle, 2020). What the future looks like for the cinema industry is more unclear than it is ever been in its history.

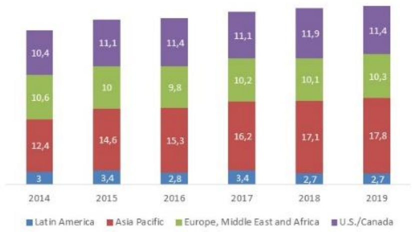

Figure 53 - Film industry revenue, by region, 2014-2019.
Source: MPAA

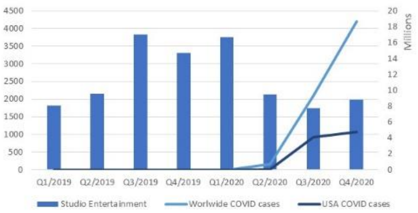

Figure 54 - Studio Entertainment revenues in millions and COVID cases.

Lastly, it is important to understand that in the traditional film distribution system, the usual split between a movie theater and studio is 50/50 of box office, but Disney already has negotiating clout with movie theaters because of its box office success, frequently negotiates a 60/40 deal, this ratio will be maintained or improved in Disney favor, due to movie theaters having a growing competition from video streaming services, and many consumers, nowadays, preferring to watch new movie releases at home, as shown in our questionnaire (Figure 55, being 5 very likely and 1 very unlikely). Mulan's release straight to Disney+ proves it can skip theaters completely, threatening to remove a lucrative revenue source for theatrical distribution chains, such as AMC and Cinemark, increasing Studios' profitability in the long-term. The ability to release a movie straight to its streaming platform will further enhance that negotiating power and it will also allow Disney the chance to get better terms in the future.

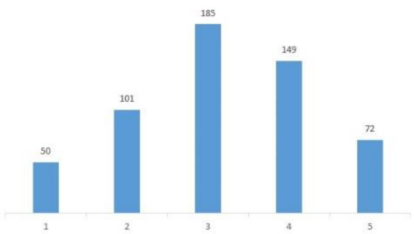

Figure 55 - At the premiere of a film, would you choose to rent it at home, via a streaming service (for example, Disney +), instead of going to a movie theater?
Source: Analayst Estimates, based on survey, 2020.

The Big Five studios, can be found within a 24 km radius in Los Angeles, demonstrating the convergence of know-how and facilities that this industry has suffered, with Disney being the only one that continues to be part of the same conglomerate, The Walt Disney Company. The Big Five, as an oligopolistic collective, dominate 80-85% of US box office revenue (Figure 56).

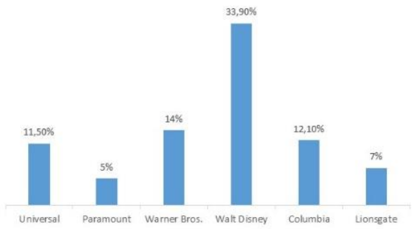

Figure 56 - US film industry market share in 2019.
Source: The-numbers.com

Universal Pictures is an American film studio owned by Comcast through its subsidiary NBCUniversal, and the oldest film studio in the United States. During this pandemic, Universal achieved an unprecedented deal with AMC and Cinemark (the largest and third-largest theatrical distribution chains, respectively) to shorten the traditional theatrical window (the industry average is about 90 days) to just 17 days. After that time, Universal can release films, that do not reach certain box-office thresholds, in its streaming platform, Peacock. Jurassic Park, Minions and Fast and Furious, were some of the films with the highest Box Office in the history of the studio. In 2019, Universal had a market share of 11,5% in the US.

Paramount Pictures is an American film studio and subsidiary of ViacomCBS. Titanic, Indiana Jones, Transformers, Shrek and Mission Impossible, are the films produced by Paramount which generated higher revenues. As of 2019, Paramount had a market share of 5%.

Warner Bros. Pictures is an American film production and distribution studio owned by the WarnerMedia Studios & Networks Group, which therefore is owned by AT&T. In December, Warner Bros., the world's second largest movie studio, announced that it will stream all of its 2021 films on HBO Max, simultaneously with movie theaters. Harry Potter, The Lord of the Rings, and the DC Comics films, represent some of the most relevant movies produced and distributed by WarnerMedia. Its 13,9% market share makes them the second biggest studio in the US.

Columbia Pictures is an American film studio and production and distribution company that is a member of the Sony Pictures Motion Picture Group, itself a subsidiary of the Japanese multinational conglomerate Sony. Spider-Man, James Bond were just some of the films that had the most impact on the "big screen", in terms of sales. Columbia ends our list of The Walt Disney Studios major competitors within the industry, with a market share of 12,1%.

Each studio is approaching the current situation differently, either due to divergence at the corporate level or due to its position in the field of streaming platforms. For example, both Sony Pictures (Columbia Pictures) and Paramount do not yet have streaming services in their portfolio to be able to offload their films, having therefore postponed most of their productions or sold to intermediaries streaming services, such as Netflix or Amazon Prime Video. Lastly, all the Big Five Studios are part of some conglomerate, therefore the lack of specific information made us look into a smaller, but independent film production and film distribution, Lions Gate Entertainment Corporation, which is an American-Canadian entertainment company, that produced and distributed high box office films such as, The Hunger Games, The Twilight Saga and many others. Even though this company does not make part of a huge conglomerate as the other, it was still capable of reaching 5% of US Studio's market share in 2019.

Trends

- The Fall of The Traditional Cinema Model and The Switch to Streaming Video-On-Demand

Since the arrival of Covid-19, people all around the world have been forced to quarantine themselves at home in a dramatic fashion, unlike almost any other time in history. Moreover, workers have been equally impacted by virtue of state-imposed shutdowns that have affected innumerable businesses, including the film industry. The results of this shutdown have produced a near total eradication of Hollywood's traditional production and distribution models in place preceding the global pandemic. Although the streaming video on demand marketplace has existed for some time, only recently has it adopted inhouse production studios of its own. In the ensuing months during which Hollywood has been shut down, those streaming networks have seen a substantial increase in demand, and thus, financial profitability, which foreshadow other more ominous consequences for Hollywood's traditional system of production and distribution to retail cinemas. Given that tickets sold fell 83% over this period and production was reduced in similar proportions, much of the industry's workforce (900 thousand professionals) were rendered unemployed overnight.

Given this, Cinemark theaters experienced a similar impact with a tremendous decrease in revenue in 2020, and AMC theatres are on the verge of declaring bankruptcy (Hollywood Survival Strategies in the Post-COVID 19 Era, 2020). According to several reports, only half of Americans say they would go to a movie during opening weekend during the first few months of 2021 with 65% either very unlikely or somewhat unlikely to return to a movie theatre within one month of reopening. Consumer anxiety about the safety of theatre attendance is also complicated by the competing but slowly increasing affinity for immediate accessibility to their film or TV series on streaming networks that some younger demographics of consumers have become accustomed to.

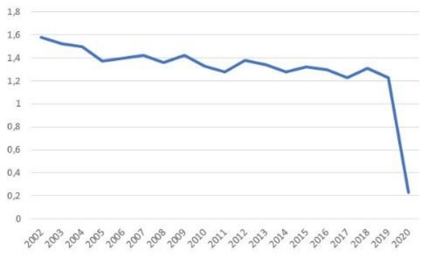

Figure 57 - US Annual tickets sold, 2002-2020. Source: The-numbers.com

The global pandemic has exacerbated the steady decline of consumers interested and committed to seeing films in movie theatres. After decades of slow but steady decline in attendance (CAGR of -1,3%, 2002-2019) (Figure 57), most think movie theaters will have to innovate in a way other than raising ticket prices.

The switch to streaming from the traditional theatre distribution system includes a financial incentive for studios that can eliminate the 50% profit that typically accrues to box office and satellite airing rights, thereby creating a significant source of revenue that otherwise might be reinvested elsewhere in "original" streaming content. Third party distribution through theatres and satellite with single ticket sales have rarely been as profitable as the predictably reoccurring revenue that streaming services generate. Combined with the other factors involved in the production and distribution costs of the past, the switch to streaming makes financial sense provided that enough numbers of consumers are predisposed to make the switch permanently.

The desires of contemporary audiences to consume their entertainment through smart-TV's and other portable devices linked to broadband connections, paired with an aversion to Covid-19 exposure has culminated in a dramatic change of fate for the Hollywood entertainment industry across television and film products. And that change would have happened anyway, were it not for an already pre-existing phenomena like the fact that "The viewing habits of the post-television generation vary from platform to platform as different screens are used for different styles of viewing" and that "88% of Netflix users and 70% of Hulu+ users watch 3 or more episodes of the same television show in a day and 7 out of 10 American television viewers describe themselves as binge viewers" (Strangelove 2015, 127).

While digital society are undoubtedly being fed a diet of on-demand content ready for their consumption, the conditions of our current quarantined state will not last forever, and even once Covid-19 disappears, behavioral psychologists believe that abandoning such easily obtained satisfaction is unlikely, and so far as these corporations, which dominate Hollywood, are concerned, they stand ready and willing to supply as much as one can consume for as long as there's a desire and money to pay for their fee.

Finally, and as our questionnaire shows, from a sample of 557 people from all over the world, only 27% of them admitted that, from now on, it would be "very unlikely" or "unlikely" to see a film debut through a platform of streaming, which also confirms this change in consumer preferences and the metamorphosis of the traditional cinema distribution system.

- The Obsolescence of Physical Formats of Distribution

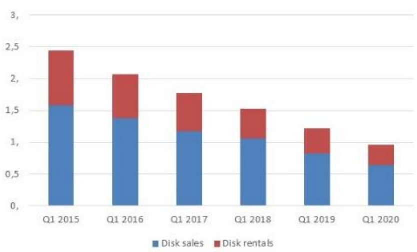

Figure 58 - Disk sales and rentals revenue in the United States from 1st quarter 2014 to 1st quarter 2020. Source: Nielsen.

Predicting the future of media is always complicated, but as of 2020, the streaming revolution is starting to pick up steam, and right now, it seems that streaming services are becoming the preferred way to watch film and television within the home. Physical media's prevalence seems to become less and less an option as time goes on. With DVD sales declining and consumers willingly selling their libraries off to video rental stores, it doesn't look too positive for the home library (Figure 58). The owners of the services are now choosing when you can and can't have access to things. We already see this happening with Disney when they acquired Fox's library.

Additionally, the Motion Picture Association of America in its annual Theatrical Home Entertainment Market Environment report, described the sharp drop in sales of physical content distribution formats. According to IHS Markit data, global sales of video disc formats (meaning DVD, Blu-ray, and UltraHD Blu-ray) were

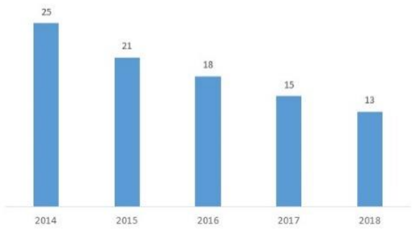

Figure 59 - Global sales of physical content distribution format, 2014-2018.
Source: MPAA.

$25 billion in 2014 but only $13 billion in 2018 (Figure 59). That's almost a 50% drop in four years.

The arrival of streaming is starting to create a tremendous shift in the home library of Americans and also the worldwide population. The slow transition away from DVD and Blu-ray is shown in our forecast as we believe that this segment will become obsolete in the long-term.

Drivers

The trends discussed above are extremely relevant to understand how studio entertainment revenues were forecasted. Given this expected change in the way the films will be distributed and consumed by the mass audience in the future and taking into account the appearance of Disney+, we divided revenue sources into 2 categories, theater related revenues and Disney+ films related revenue.

	2021F	2025F	2030F	2035F
% of movie theaters viewers	83%	65%	40%	30%
% of Disney + film viewers	17%	35%	60%	70%

Figure 60 - Distribution between people who watch film on Disney+ and on the theaters.
Source: Analyst Estimates.

The first assumption to understand is the decline in the number of people who choose to go to the cinema to see a film premiere instead of seeing it at home (Figure 60) through the acquisition of the film on the Disney+ platform (in 2020, *Mulan* was the pilot test of this new way to consume Disney films, costing $30). In 2019, on average each Disney film was seen by 65 million people, so for projected number of Disney's movie viewers we applied the growth rate of the population aged in their 30's (from the regions that we find most relevant). After getting this number, we divided into the people who prefer to watch the films in the cinemas and people who choose to see at home. We believe that in 2021, 83% will continue to prefer going to the cinema, but we will see a gradual decrease as streaming platforms gain more and more ground. We expect that in 2035, we will see only 30% of people watching movies in theaters.

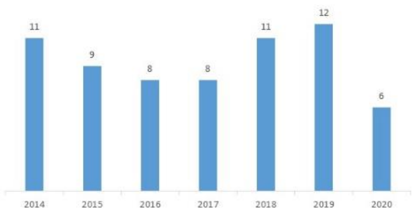

Figure 61 - Number of blockbusters released by Disney each year, 2014-2020.
Source: Analyst Estimates.

In conclusion, considering that the number of films released will be close to the historical average (around 11 relevant films released each year) (Figure 61), the number of subscribers of the platform, the distribution between home-viewers and theater-viewers, and that an average family that subscribes Disney+ has 3 members, we apply these rates and values thus obtaining the revenues of "theatrical distribution licensing".

Margins, Rates and Assets & Liabilities

Studio Entertainment	2020FY	2025FY	2030FY	2035FY
Revenues	9 636	15 061	18 040	20 913
Gross Margin	52%	64%	67%	69%
Core Result	1 774	3 926	5 483	7 155
Net Margin	18%	26%	30%	34%
FCF	1 547	2 691	3 846	5 036
WACC	7%	8%	8%	9%
ROIC	6%	10%	12%	13%
Investment Rate	13%	31%	30%	30%
Growth	1%	3%	4%	4%

Table 8 - KPIs for Studio Entertainment segment.
Source: Analyst Estimates.

In Studio Entertainment, the change in the traditional model of film distribution will favor Disney, which in this way manages to cut costs and optimize its streaming platform. Therefore, as we see this phenomenon unfold, and more and more people are joining this new way of watching movies, we will also see the segment's ROIC increase considerably (Table 8), and the investment rate of this sector will not change significantly.

The most relevant assets for this business model are the theatrical film cost advances and goodwill (the latter being a non-cash movement, so we have chosen to keep it constant).

Regarding the discount rate of this segment and given that there are no relevant public competitors, we decided to give a weighting of 25/75 between the average of the comparables and Disney's regression beta, resulting in a Ru of 8,2%.

Lastly, and considering all drivers, trends, rates and other variables, we believe that a 3,9% growth in steady state, fits in with the long-term prospects of nominal growth for developed economies.

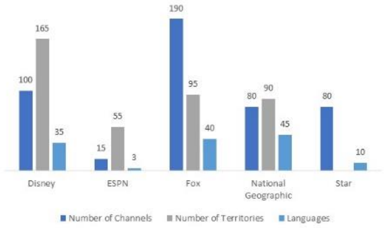

Figure 62 - Number of international TWDC channels subscribers, in 2020, in millions.
Source: TWDC Annual report, 2020

Direct to Consumer & International

Business Model

DTCI includes, branded international channels, such as Disney, Fox (FX in the US), National Geographic, ESPN and Star. These channels produce local content or acquire rights from domestic studios and third parties. Information about the reach and number of these channels is presented in Figure 62, Figure 63 and Figure 64. The most recent segment within DTCI are the Direct-to-Consumer streaming services such as Disney+, ESPN+, Hulu and Hotstar Disney+. Disney+ has been rolled out to the USA, Canada, several European countries and will continue to expand to other European, Asian and Latin American countries. Hulu has been a US service but will in 2021 be rolled out to other countries (to be defined). ESPN+ is solely US based and will remain so in the short term. Hotstar Disney+ is the mostly Indian and southeast Asia version of Disney+ that also includes Indian content previously provided by Hotstar (productions by Star Studios). The subscription numbers of these services are presented in Figure 65. Besides the international channels and DTC business, DTCI operates digital content distribution platforms and services such as branded websites. Regarding the business model, international channels revenue sources and costs are similar to the ones in Media Networks. Revenues from affiliate fees are negotiated per subscriber with the MVPDs and advertising is contingent on the number of viewers. Regarding the DTC segment there are subscription fees, which are charged to the clients for the right to use the platform they subscribe to. There are also advertising revenues which are non-ratings based, meaning they can be targeted to specific viewer groups. This sort of advertising revenue is higher, in a per subscriber basis than the ratings-based advertising (Burguet & Petrikaite, 2018). Hulu, has a plan for ASVOD and a simple subscription video on demand which is 30% more expensive. Hulu also operates a Live Tv service which works

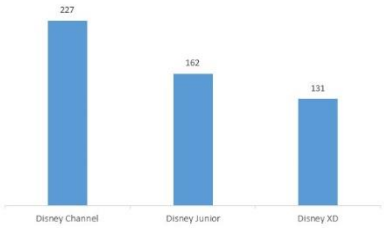

Figure 63 - International Disney branded channel subscribers, in millions.
Source: TWDC Annual report, 2020

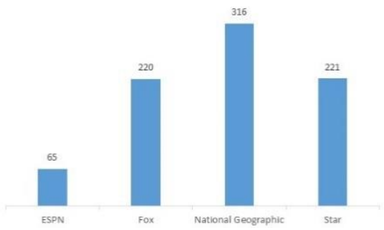

Figure 64 - ESPN, Fox, National Geographic and Star branded channels subscribers, in millions.
Source: TWDC Annual report, 2020.

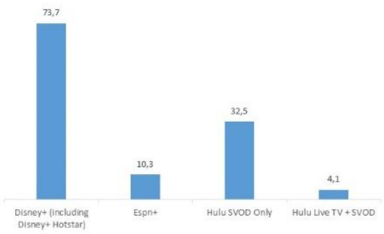

Figure 65 - TDWC DTC platforms subscribers, in millions.
Source: TWDC Annual report, 2020

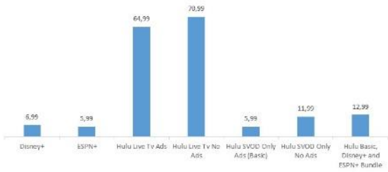

Figure 66 - US DTC platforms subscription price.
Source: Each reported company's website, 2020

as a vMVPD. Disney+ operates in a SVOD business model (with the exception for premiere films like Mulan which was operated in a TVOD model) and ESPN+ due to the nature of live sports, operates in a ASVOD model. US monthly price points are presented in Figure 66.

Market Overview and Competitors

Average KPI	All US International Cable Comps	TWDC DTCI
Revenue from International	6 974	5 425
EBITDA Margin	17%	N/A
Overall Company's ROIC*	9,64%	-3,10%
Overall Company's WACC	5,33%	9,06%

Table 9 - KPI's of TWDC International channels segment and also comparable firms.
Source: Analyst estimates, 2020

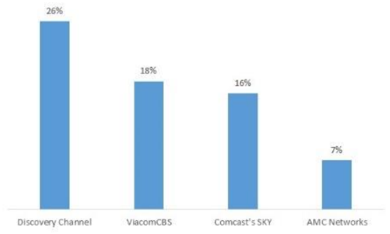

Figure 67 - Comparable firms EBITDA margin in 2019.
Source: Analyst estimates

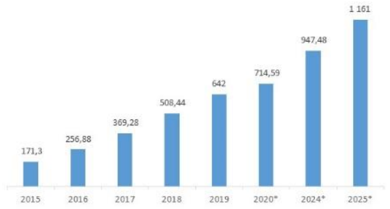

Figure 68 - Past and expected SVOD subscribers, in millions.
Source: Digital TV Research, 2019

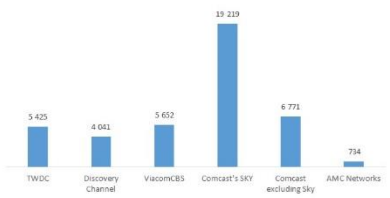

Figure 69 - 2019 Revenue from international channels.
Source: Each company's annual report, 2019

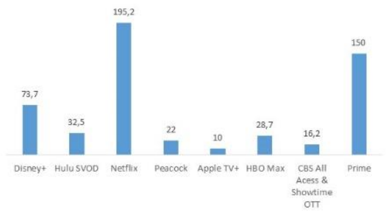

Figure 70 - Number of DTC platform subscribers in 2019, in millions.
Sources: Business Insider, 2019; Mesaonline 2019; Theverge 2010

The International part of the segment is inhabited by all the US firms who operate cable channels outside the US and also all the national companies that operate entertainment, sports, lifestyle and other cable channels. Disney operates branded channels in over 160 countries, so it faces national competition on each of those countries. Comparable results with other US firms are presented in Figure 67 and Table 9[9]. Disney's DTCI segment includes the growing subscription platforms which creates unreliable data on ROIC in 2020.

The Direct-to-Consumer (mainly OTT) market where Disney is inserted is divided between SVOD, AVOD, TVOD and vMVPD platforms. In the SVOD market there exists Disney+, Netflix, Apple TV+, Amazon Prime Video, Peacock, HBO Max, Hulu and other smaller players. Hulu Live TV operates in a smaller market where traditional MVPD's are been challenged by virtual providers who incur in lower costs of providing the product. In 2019 there were 642 million OTT subscribers and Digital TV estimates that by 2025 there will be 1161 million subscribers (Figure 68) which implies a 10% CAGR which is consistent with the subscription forecasted revenue in the model with a 10% CAGR in the explicit period. Regarding revenue from all these OTT platforms data is not available for most services. Disney's 2020 subscription revenue was $7,6 billion compared to $23,819 billion from Netflix. Once again, comparing WACC's we can see that 2019 Disney's WACC was 8,1% compared to Netflix's 10,53%, which is expected as DTC is a stronger more volatile segment. As a final note, this segment is populated by traditional Media players such as Disney, companies that were not in the M&E industry such as Amazon and also companies like Netflix that did not host traditional channels before.

Regarding the international channels competitors, National Geographic directly rivals channels such as Discovery Channel; Disney Channel rivals with Nickelodeon (ViacomCBS), Cartoon Network (AT&T) and other junior entertainment channels from each country. Fox rivals with channels such as Syfy (Comcast), AXN (Sony) and other content that runs in each individual country. On Figure 69, we can see the revenue from other US cable channel owners, this revenue only represents income from international channels. Regarding EBITDA margins, the average is presented in Table 9.

[9] Data in relation to ROIC does not include AMC Networks and Discovery Inc. The ROIC and WACC presented by TWDC is only represented by DTCI segment.

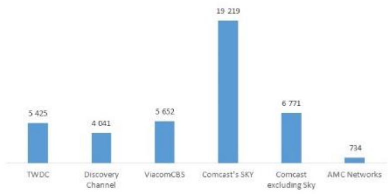

Figure 71 - US DTC platforms price (Basic SVOD).
Source: Each company's DTC website

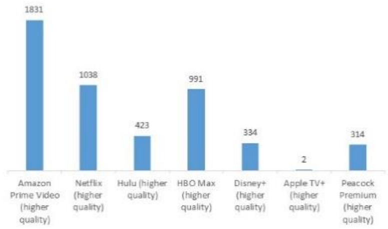

Figure 72 - High quality movie catalog, September 2020.
Source: Statista, 2020

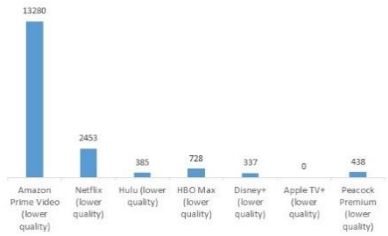

Figure 73 - Low quality movie catalog, September 2020.
Source: Statista, 2020

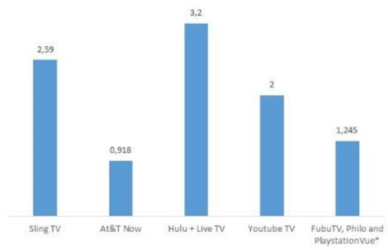

Figure 74 - vMVPD's number of subscribers, in 2020, in millions.
Source: Fierce video, 2020

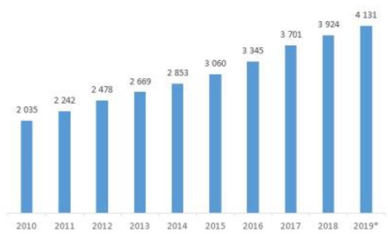

Figure 75 - Global number of internet users, in millions.
Source: ITU

Regarding DTC and, SVOD, the largest competitor to Hulu and Disney+ at the moment is Netflix (Figure 70[10]). Netflix is an established service that besides the content acquired, has started developing its own content, and since then, launched 2769 hours of original content (Statista, 2019). Currently, it has content assets of over 24 billion dollars and spreads its content in 190 countries (Netflix, 2019). Its worldwide ARPU was $10,82 (Netflix, 2019) and its US ARPU was $13,4. Netflix has been increasing from 2017 to 2019 its gross margin from 28,54% to 37,36% whilst the EBITDA margin was 12% in 2019. The overall number of subscribers is presented in Figure 70 and the US pricing is presented in Figure 71.

Another competitor in the SVOD environment is AT&T's HBO Max. This service, similarly, to Netflix is preponderantly targeted to the age group 18-49 (Cordcutters,2019 and businessofapps,2019). AT&T acquired the HBO brand, when the company acquired Warner Bros. Similarly, to Disney, HBO has already a vast library of content due to the other businesses of Warner Bros and Turner, this vast library meant HBO Max launched with 10000 hours of content.

The competitor with the largest library in terms of movies and tv shows (Reelgood, 2020) is Prime Video, we can see the number of movies divided by high and low quality in Figure 72 and Figure 73. This SVOD service was the solution Amazon found to enter the streaming environment. Amazon Prime is a service that improves customer care and delivery speed in Amazon supported countries, Amazon Prime Video is the SVOD platform. Users who pay for Amazon Prime automatically have access to Amazon Prime Video for no extra charge, however non-Amazon Prime users can subscribe to the Prime Video for $8,99. Amazon Prime as a whole has over 150 million worldwide subscribers with a monthly cost of $12,99. However Media Post estimates that only 26 million of the US Prime subscribers use Prime Video in the US.

Another competitor which was not in the MN segment but has started a SVOD service is Apple, with the Apple TV+ service. The service was launched November first, 2019 and according to Apple is now available in over 100 countries. The number of subscribers (Figure 70) are boosted by the 1 year free membership offered by Apple on every phone, tablet or computer purchase.

The final big SVOD service is Peacock by Comcast, which is the most recent service that has been launched on the 15th of July 2020. This service includes NBC content and Universal Studios theatrical productions. The service currently is only available in the US but will roll out to the EU in the future.

Viacom and CBS merged in 2019, with this, the newly formed ViacomCBS, is managing CBS All access and Showtime OTT. The first service which is solely

[10] Data for Disney DTC platforms and Netflix is in 2020.

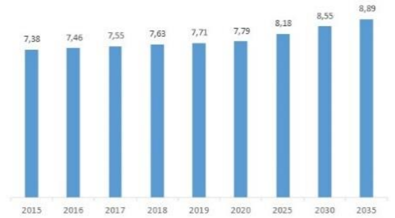

Figure 76 - World population, past and forecasted, in billions.
Source: UN DESA, 2020

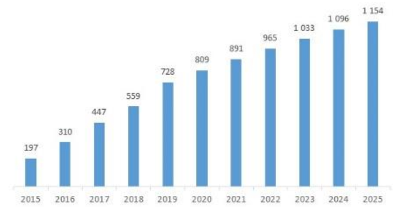

Figure 77 - Mobile internet users in Southern Asia, in billions.
Source: Statista, 2020

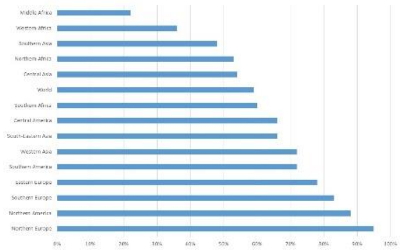

Figure 78 - Internet penetration rate worldwide, in 2020, by region.
Source: We Are Social; DataReportal; Hootsuite; ITU; GlobalWebIndex; GSMA Intelligence; APJII; Kepios, 2020

	Disney	ESPN	FOX	NG	Star
Drastic Change to DTCI	-3,76%	-3,76%	-3,76%	-3,76%	-3,76%
Modest Change to DTCI	-2,60%	-1,52%	-1,88%	-2,60%	-2,00%
Slight Change to DTCI	-1,00%	-1,00%	-1,00%	-1,00%	-1,00%
	advertising DTC real growth	organic DTC services 2020/2027	organic DTC services last 2027+		
Drastic Change to DTCI	4,00%	2,02%	0,50%		
Modest Change to DTCI	3,00%	2,02%	0,50%		
Slight Change to DTCI	2,00%	2,02%	0,50%		
	TV/SVOD Distrubuting Licensing	Advertising Channels	Affiliate Fees		
Drastic Change to DTCI	-25,00%	-2,00%	-3,00%		
Modest Change to DTCI	-15,00%	-1,00%	-2,00%		
Slight Change to DTCI	-5,00%	-0,50%	-1,00%		

Table 10 - Assumed scenarios in the DTCI segment.
Source: Analyst estimates

available in the USA, costs $9,99 without advertising and Showtime OTT $10,99. The combined number of subscribers is around 15 million. ViacomCBS will rebrand CBS All Access to Paramount+ in order to create a larger competitive player within the SVOD market, this player will have a huge library of theatrical productions by Paramount Studios. ViacomCBS also owns PlutoTV which is an AVOD platform with 28 million users.

TWDC'S Hulu Live TV, faces competition within the vMVPD segment. Besides competing with much larger traditional MVPD's it also faces other vMVPD's. The vMVPD's market has reached 10M total subscribers according to Fierce Video, with the biggest player being Disney's Hulu. The subscriber count is shown on Figure 74.

Regarding revenues and margins of competitors, this is a market with low levels of transparency. Besides Netflix, which solely focuses on SVOD (has a small legacy business) there is no information on most OTT platforms margins or even revenue. In some businesses, not even ARPU's are divulged. Also, besides, Netflix, no firm can be a proxy for the segment of DTCI, as the OTT portion of their businesses is small.

Valuation

Trends

- Accesability to Online Video Content

In 2020 the number of internet users was 4,8 billion (Statista, 2020) and in the past decade the CAGR was of 7,9% (Figure 75). In 2020 59% of the world population had access to the internet and the growth in expected population with internet access (3,3% according to ITU) surpasses the growth in global population which according to UN DESA data is 1% per year in the next 10 years (Figure 76). For this reason, organic growth is expected for DTC solutions as developing countries will gain access to subscription services, mainly with their mobile phones, Figure 77 and Figure 78. TWDC announced in the Q4 investor call that Hotstar Disney+ already accounts for a quarter of Disney+ subscriptions which is the reflection of this adoption.

Revenue Drivers

When forecasting the revenues for the DTCI segment the model splits between the international channels and the streaming platforms. For the international channels the same logic mentioned in the MN for the national cable networks is applied. The three scenarios are also assumed, and the channels decrease their number of subscribers with the same percentage change applied in the national channels (Table 10). The weighted average number of subscribers (in accordance

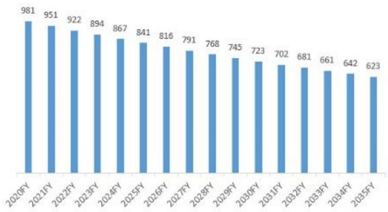

Figure 79 - Weighted average number of international channel subscribers, non-recurrent, in millions.
Source: Analyst Estimates.

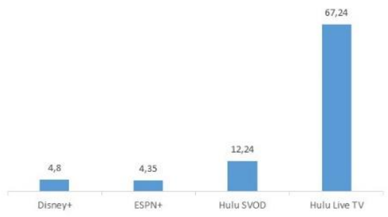

Figure 81 - TWDC DTC services yearly ARPU, in dollars.
Source: TWDC Annual report, 2020

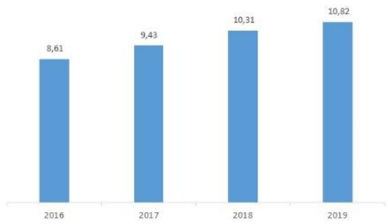

Figure 80 - Netflix monthly ARPU, worldwide.
Source: Netflix Annual report, 2016, 2017, 2018, 2019

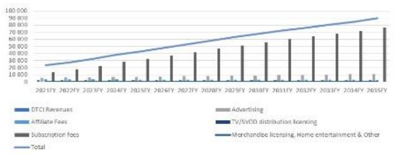

Figure 82 - Forecasted DTCI revenues, in millions USD.
Source: Analyst estimates, 2020

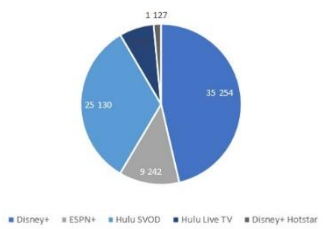

Figure 83 - Forecasted, 2035, subscription revenues, in millions of USD.
Source: Analyst estimates, 2020

with the percentage scenarios, Figure 79) is then multiplied by the average affiliate fee per subscriber which evolves in accordance with the inflation rate, to obtain the international channels affiliate fees. For the advertising in these channels the amount earned per subscriber (paid by firms who advertise in the company's channels) is expected to decrease (eMarketer, 2019) in accordance with the change to DTC.

Regarding the streaming channels the drivers are the yearly ARPU (Figure 81) and the number of subscribers. The evolution of the ARPU depends on the inflation rate (world) and also depends on the long-term value of the service. Disney+ currently is selling under-price in comparison to the competitors, which is a strategy for capturing subscribers in the short term. When analysing the long term ARPU (without advertising) of Hulu and Disney+, which is consistent with the true cost of content plus margin, it should be closer to the ARPU of Netflix (Figure 80). The factors that make Disney+ and Hulu ARPU in the long term lower than Netflix is the bundle potential that Disney has and is already implementing, which diminishes per service ARPU. In accordance with the results from the survey we performed, the ARPU applies a risk factor that considers if users will be shown advertising (30% discount on the monthly fee) or not. When discussing the ARPU of ESPN+, investors must bear in mind that although ESPN has been a cash cow for Disney it is also the most expensive channel to operate due to the cost of owning the rights for certain sports events. In 2019 it is estimated that approximately $22 billion were spent on sports rights (Media.sportsbusiness, 2019). Currently it is estimated that the affiliate fee per subscriber that MVPD's pay for ESPN is between 7 and 12 dollars, this cost will also exist in the DTC solution. However, currently ESPN+ doesn't transmit certain expensive sports such as NFL. In the future, if ESPN+ becomes the main content provider, it will raise its subscription fees in order to be able to support the sports rights licenses.

Regarding the number of subscribers per platform, besides assuming that the cord cutters will subscribe to the respective DTC content providers (from 2028 onwards the total amount of subscribers lost by traditional channels isn't totally absorbed in DTC), there is also an expected organic growth percentage that accounts for factors such as the population with access to online content. From 2030 onwards, the subscriber growth is consistent with the expected GDP growth.

Regarding the advertising revenues, the model assumes that the per subscriber advertising value is 50% the value currently received in the national cable channels and 50% from the international cable channels and it goes in line with the world inflation (regarding the per subscriber ad value). The other revenue factors of DTCI are expected to converge to 0 as they represent Home Entertainment and TV/SVOD distributing licensing which are areas where Disney

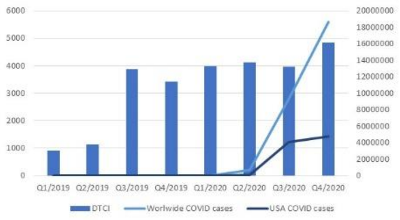

Figure 84 - COVID cases and DTCI revenues.
Source: Analyst estimates, 2020

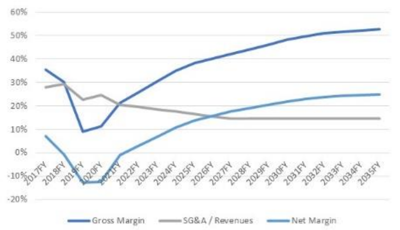

Figure 85 - DTCI Margins.
Source: Analyst estimates, 2020

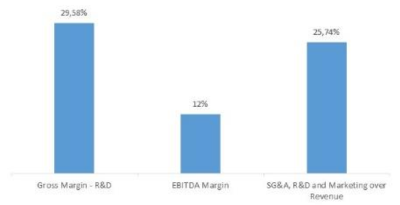

Figure 86 - Netflix's 2019 operating margins.
Source: Analyst estimates, 2020

Average KPI	All US International Cable Comps	TWDC DTCI
Revenue from International	6 974	5 425
EBITDA Margin	17%	N/A
Overall Company's ROIC*	9,64%	-3,09%
Overall Company's WACC	5,33%	9,06%

Table 11 - KPI's for DTCI segment and US international cable channel providers.
Source: Analyst estimates and Bloomberg, 2020

DTCI	2020FY	2025FY	2030FY	2035FY
Revenues	16 967	43 036	67 955	89 463
Gross Margin	11%	38%	48%	53%
Core Result	(2 091)	5 884	14 812	22 343
Net Margin	-12%	14%	22%	25%
FCF	4 317	2 346	10 779	18 059
WACC	9%	11%	12%	13%
ROIC	-6,52%	11,47%	20,92%	24,69%
Investment Rate	306,47%	60,12%	27,22%	19,17%
Growth	-20,00%	6,90%	5,70%	4,73%

Table 13 - KPI's for DTCI segment.
Source: Analyst estimates, 2020

Regression with y= television rights and content and x= revenues		
βu	0,43218373	0,00
σ	0,04532548	#N/A
R2	0,96805739	903,20
F stat	90,9184388	3,00
ssreg	74169030,7	2447326,36

Table 12 - Regression analysis between Revenues and Television costs rights and advances.
Source: Analyst estimates, 2020

is disinvesting. The overall forecasted revenues are presented in Figure 82. The 2035 subscription revenue is represented in Figure 83.

Covid-19 is also not affecting DTCI revenue as, through the same analysis performed in the previous segments, no correlations are visible, Figure 84**.**

Margins, Rates and Assets & Liabilities

Regarding DTCI, current operating margins are not reflecting a steady status. Firstly, due to the consolidation of TFCF and Hulu, the 2019 results were misrepresented. Due to the recent additions of Disney+ and the investments made in the platform (and also the other streaming solutions) the net income is as expected to be negative and will be so in the coming years as Disney keeps investing in the platforms. In 2020, Programming and Production Costs accounted for 58% of revenues, which is 10% higher than the results in Media Networks and the overall gross margin was almost 20% lower in DTCI (Figure 85). If we included SG&A expenses the DTCI net margin is negative and Media Networks was 28% which implies that the margins in DTCI do not represent the long-term status. The long-term net margin the model assumes for DTCI is slightly larger than the Media Networks, in order to represent the higher control from content creation to the end user on an OTT market. The SG&A margins for DTCI, in comparison to Netflix (Figure 86) are lower, this is because of the conglomerate effect on DTC. As Mr. Walt Disney predicted in the original business model, each division works for one another and therefore DTCI does not need the same investment in marketing as Netflix. However, the competition that is present and the one that will still enter, this market is bound to become more competitive than the Media Networks and the marketing costs (included in SG&A) and costs to acquire external content reflect this competitiveness. Information solely on the international cable channels is presented in Table 11 and general DTCI KPI's are presented in Table 13.

Regarding the return on assets that this segment has, the model assumes it as represented 2/3 by Disney's regression beta and 1/3 of Netflix's unlevered beta. In this segment we did not assume a uniform split, as the only comparable firm is Netflix. The current WACC (2020) for DTCI is 9,06% and the ROIC -3,09%, due to the investment phase the firm is currently on. In the steady state the WACC is expected to increase to 13% (the model assumes all segments have the same capital structure) and the ROIC is expected to increase to 25%, which is representative of the value creation of DTCI. This gap is explained by the potential this segment has in developing. Through new forms of reaching the end user, with little to no intermediation. This result is consistent with our nominal g in the steady state being 4,7%, which is larger than the expected US nominal growth rate.

Regarding the sensitive caption of Television Costs, Rights and Advances, the same regression method used in MN was applied. Netflix with approximately 190

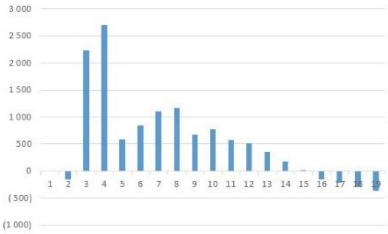

Figure 87 - DTCI investment in NWC, in millions.
Source: Analyst estimates, 2020

million users had, in 2019, $24,5 billion in content assets, for that reason, the model uses the higher interval from the CI (0,53) as the coefficient (Table 12).

Intangible assets in the DTCI are representative of character value, brands, international MVPD agreements and others. Although the latter is expected to decrease, the model contemplates an annual investment for intangible assets in order to cover the possibility of Disney acquiring certain characters or franchises.

Regarding NWC, as this business is heavily based on cash before service, as the subscriptions are paid in the beginning of the 30 day or 1-year usable period, the level of deferred revenue is quite high and the NWC activity acts as a financing source with a negative cash conversion cycle (Figure 87).

Macro Overview

2020 was undoubtedly a very atypical year, with Covid-19 entering our lives and affecting in a way or another the way we work, how we entertain ourselves, how we socialize, our life in general. But other macroeconomic events must be addressed as they play a crucial role in assessing companies' valuation and their future as a company facing this panorama.

Covid-19 epidemic began in January 2020 in what is believed to be in the Wuhan province of China. By March epidemiologists at the WHO later characterized Covid-19 as a pandemic. As a result of this pandemic, many countries and regions had to impose quarantines, entry bans, or other restrictions for citizens, prevent their own citizens from travelling overseas to control the spread of the virus in the most affected areas. Together with a decreased willingness to travel, the restrictions have had a negative economic and social impact on the travelling and hospitality sectors of those regions.

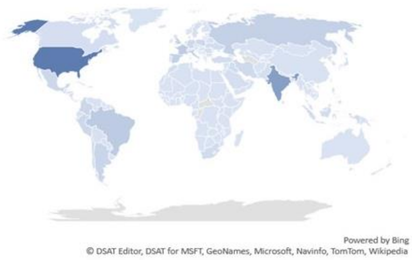

Figure 88 - Mapa Mundi of the most and least affected countries by Covid-19.
Source: World Meters info, 2020.

At the time of this research submission over 1,5 million people have died and over 72 million cases have been confirmed worldwide (Figure 88) (Figure 89).

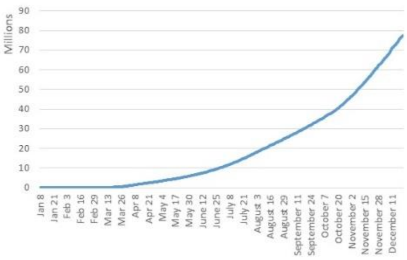

Figure 89 - Number of cumulative cases of Covid-19 worldwide since January 8th.
Source: World Meters info, 2020.

Given this, the adverse impact of Covid-19 on TWDC businesses will continue for an unknown length of time and may continue to impact certain key sources of revenue, as the company has business interests in areas that involve mass gatherings including its theme parks and film releases. Nonetheless, other areas including its streaming service and the television brands might benefit from the social isolation. Theme parks were closed or operating at significantly reduced capacity for a significant portion of the year (Table 14), cruise ship sailings, guided tours and stage play performances were suspended since late in the second quarter, and retail stores were closed for a significant portion of the year. In addition, Disney has delayed or, in some instances shortened or cancelled, theatrical releases and have experienced adverse impacts on advertising sales and on our merchandise licensing business. (Disney Annual Report, 2020)

Walt Disney World Resort	15/03 - 10/07
Disneyland Resort	14/03 - ....
Disneyland Paris	14/03 - 14/07 and 30/10 - ....
Hong Kong Disneyland Resort	26/01 - 17/06 and 15/07 - 24/09
Shangai Disney Resort	25/01 - 10/05
Tokyo Disney Resort	29/02 - 30/06
Disney Cruise Line	14/03 - ....

Table 14 - PE&P's operations closing period due to covid-19.
Source TWDC annual report, 2020.

Recent news on the efficacy of Covid-19 vaccines has indeed come as welcome news, but we know that a vast distribution program remains several months away. Scientists and health experts indicate that vaccines will be available to the majority of the population, in developed countries, around the second quarter of 2021. So we believe that 2021, despite being a much more positive year for Disney, than the previous one, we will only see park attendance values return to normal in mid-2022, by which time we believe most of the population will feel safe, health wise, both for traveling and attending mass gathering locations, as shown in our valuation.

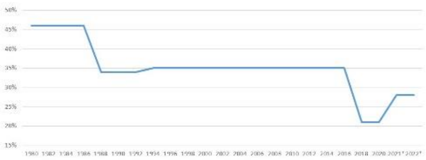

Figure 90 - Evolution of US corporate tax rate, since 1980.
Source: Bureau of Economic Analysis National Income and Product Accounts data, 2020.

In November, Joe Biden defeated the incumbent president Donald Trump in the 2020 presidential election and will be inaugurated as the 46th president on January 2021, and will likely have to work with a Republican Senate majority, limiting his ability to implement the Democratic fiscal agenda. Nevertheless, Biden pledged to raise the corporate tax rate to 28% from 21% (Figure 90), which was incorporated in our valuation for future years.

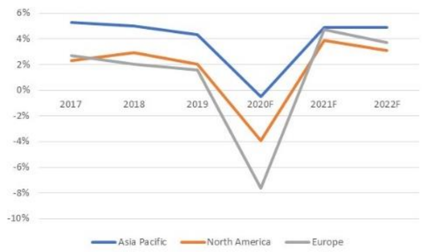

Figure 91 - Real GDP growth (YoY%), by region.
Source: Bloomberg Estimates.

Given the current panorama, global economy is expected to slow -3,8% (YoY%) in 2020, with sectors such as airlines, restaurants and movie theaters being most affected by this pandemic. While sectors related to Internet, TV, and Mail-Order Retailers were the top performers. The regions where Disney operates with greater preponderance are North America (representing 80% of revenue), Europe (11%) and Asia Pacific (9%). The three regions had and will have impacts of different scale on their economies. The least affected, Asia Pacific, as it was the first to be affected by the pandemic, managed to contain the number of cases better and presents more optimistic values for the GDP growth. On the other hand, North America and Europe, which are currently experiencing a 2nd wave of Covid cases, had started to take containment measures later so their economies suffered the most. (Figure 91).

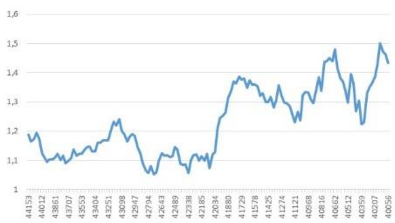

Figure 92 - EUR/USD exchange rate.
Source: Bloomberg, 2020

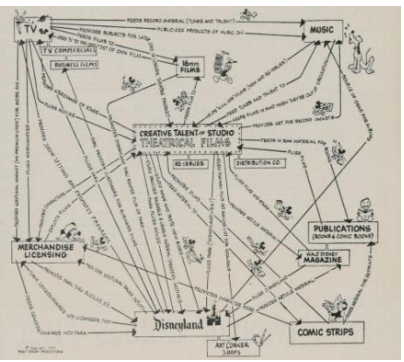

Figure 93 - Original business model planned by Mr.Walt Disney.
Source: Business Insider, 2015

Key Risks

Covid-19, is logically a risk that the company faces, especially in the PE&P segment. This risk is discussed in greater depth in the macro overview segment.

For a global company such as Disney, exchange rate risk is significant, (Figure 92) however, the company, incorporates this risk in the regular derivatives hedging.

A risk that is tied to Disney's core business, is the theatrical content success. Figure 93 represents the original business model created by Mr. Walt Disney himself, and the key factor is every business unit works for one another and the core is the theatrical productions. If the theatrical productions do not do as well, the rest of the business units will also suffer, as less people will visit parks, subscribe to services and others. Disney has, in the past, had periods with less success than the competitors, for example the end of the 90's begging of the 2000's, where it was losing market share to Pixar (Figure 94). This effect has been accounted for, in the number of above $100 million box office films Disney is expected to release every year, which represents an average of good and bad years.

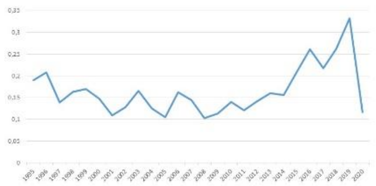

Figure 94 - Disney's box offixe Market share in the US.
Source: The numbers, 2020

A risk that is tied to the increase in importance of the DTC business is the piracy impact and mooching[11]. DataProt estimates the annual global revenue lost in the movie industry, to Piracy, is between $40 and $97,1 billion, which is only expected to become worst as more content is provided in digital platforms. In 2018 DataProt found there were over 190 billion visits in pirate sites, the main country sources are presented in Figure 95. DataProt estimates 50% of these visits were to streaming services. In relation to mooching, Cordcutting has discovered that approximately 15% of people use other individual's credentials. Both this effects are already expected by DTC providers and the pricing already incorporates this event.

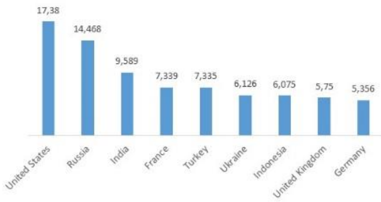

Figure 95 - Visits to Piracy websites in 2018, in billions.
Source: DataProt, 2019

Capital Structure

Given the peer companies that we have selected for TWDC, we can observe that Disney's 0,24 D/E, in Market Values, is one of the lowest among its comparables. As we have decided to value Disney as a sum of parts, we can notice that Media Networks (median D/E of 0,46) (Figure 97), Parks, Experiences and Products (median of 1,33) (Figure 96) and Studio Entertainment (median of 0,75) (Figure 98) are the segments that have higher capital needs, while DTCI has a very low debt profile (median of 0,14). As Disney will become more oriented towards its DTCI business we are expecting the debt levels to decrease in the long-term.

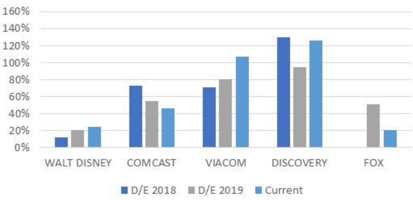

Figure 96 - Comparison of the D/E of PE&P peer companies.
Source: Bloomberg data.

While Disney has a strong liquidity position (Table 15), their goal is to return to levels consistent with a single A credit rating, as stated by Bob Iger in the 4Q 2020 earnings webcast. As part of that commitment and given limited visibility due to Covid-19 and decision to prioritize investment in DTC initiatives, the board has decided to forego payment of a semi-annual dividend in January 2021. Capital allocation strategy will continue to prioritize investing in the growth of the four businesses, particularly in the direct-to-consumer segment. However, we anticipate the payment of a dividend will remain a part of the long-term capital allocation strategy following the return to a normalized operating environment. We believe that in the long-term the distribution of dividends (payout ratio) will go in line with their historical average of 25,7%, as shown in our valuation.

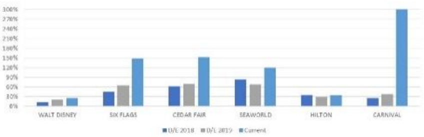

Figure 97 - Comparison of the D/E of Media Network peer companies.
Source: Bloomberg data.

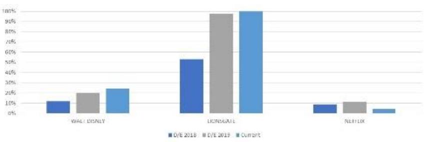

Figure 98 - Comparison of the D/E of Studio Entertainment and DTCI peer companies.
Source: Bloomberg data.

[11] Mooching is the event of a DTC user using another's person account credentials for viewing content, without paying.

Solvency Ratios	2017FY	2018FY	2019FY	2020FY
Quick Ratio	74%	86%	84%	126%
Current Ratio	81%	94%	90%	132%
Cash Ratio	21%	23%	17%	67%

Table 15 - Disney's solvency ratios evolution.
Source: Analyst Estimates.

	βu	Ru
Media Network	0,87	8,72%
Parks, Experiences & Products	0,93	9,12%
Studio Entertainment	0,79	8,19%
Direct to Consumer & International	0,89	8,83%

Table 16 - Comparable firms data.
Source: Analyst estimates, 2020

βe	1,08
σ	0,14
R2	0,51
F	61,92
ssreg	0,14

Table 17 - Regression of Disney's stock returns against the S&P500.
Source: Analyst estimates, 2020

Maturity	Billions	Yield
-1 to 2 yrs (10)	3,86	2,04
-2 to 3 yrs (8)	1,24	1,96
-3 to 5 yrs (22)	6,82	2,27
-5 to 7 yrs (20)	7,82	2,60
-7 to 10 yrs (18)	5,05	2,51
-10 to 20 yrs (39)	10,41	3,06
-20 to 30 yrs (22)	9,75	3,37
-30+ yrs (10)	4,68	3,71
	53,15	**2,75%**

Table 18 - Disney's bond issuances.
Source: Bloomberg, 2020

	ROIC	Growth
Media Networks	6,93%	-0,32%
Parks, Experiences and Products	19,98%	4,48%
Studio Entertainment	13,13%	3,89%
Direct to Consumer & International	24,69%	4,73%
Corporate	-27,91%	2,89%
Aggregate Operating Excluding Corporate	17,66%	3,52%

Table 19 - 2035 forecasted perpetuity growth and ROIC.
Source: Analyst estimates, 2020

Share Price	-1,5%	-1%	-0,5%	Δ g	0,5%	1%	1,5%
-1,5%	243	267	298	339	400	494	666
-1%	212	229	252	281	320	377	466
-0,5%	186	200	216	237	265	302	355
Δ Ru	165	176	188	204	224	249	284
0,5%	148	156	166	178	192	211	235
1%	133	139	147	156	168	182	199
1,5%	120	125	131	139	148	158	171

Table 20 - Sensitivity analysis on Disney's share price.
Source: Analyst estimates

In November 2020, Disney credit rating was downgraded to BBB+ (S&P). Even though it maintains a solid liquidity position, the S&P credit rating company have downgraded Disney during the Covid-19 pandemic. In 2019, interest coverage was very solid as well rounding 13x, meaning that Disney EBIT is almost 13 times higher than their interest expense responsibilities. Due to Covid-19, in 2020, this ratio was close to 0x, but in 2021 we will see this ratio returning to pre-Covid values.

Discount Rates

The valuation method chosen was the APV, for the advantages of modelling a varying debt structure. For this reason, the discount rate necessary is the cost of unlevered equity. Due to the structure of the company, with the 4 distinct segments, the valuation has been done with 4 different discount rates representing each BU's asset risk. For the tax shields an average of the segments was calculated for an Ru that represents the whole firm. Financial and non-core assets or liabilities were included at book value. The strategy chosen for achieving a discount rate for each business unit was to find comparable firms in each industry and average the unlevered betas. To obtain a true beta for Disney's segments we combined the industry competitor's beta (Table 16) with Disney's beta obtained from a regression with 5 years' monthly data against the S&P500 (Table 17). We weighted the 2 beta sources in different manners, depending on the segments competitors, this way the industry specific beta we obtain, includes a risk discount due to the conglomerate effect (Gatzert, Schmeiser 2011). When obtaining Disney's beta from the regression the beta of debt used for un-levering was obtained through the CAPM with the risk-free rate of 2,84% consistent with a 10Y US treasury bond plus inflation and an MRP estimated by KMPG assets. The cost of debt was calculated in consistency with Corporate Default and Recovery Rates, 1920-2011, with a YTM of 2,14% which represents a weighted average of 1-30Y Disney public traded bonds (Table 18).

The summary of each segment β_U and R_U is presented in Table 16. This table already includes the beta of Disney through the regression (1,08) and the average unlevered beta for the comparables presented in Table 16.

Regarding the continuing value, each business unit has a different ROIC and reinvestment rate therefore a different perpetuity growth rate. The ROIC and g are presented in Table 19.

Sensitivity Analysis

We performed a sensitivity analysis to understand how sensitive each segment is to variations (of 0,5% each way) in their cost of assets and the growth rate on the perpetuity. We aggregated the results in order to visualize the possibilities of share price in accordance to the changes in these parameters. The results are presented in Table 20. The highest possible share price in this analysis came to $666 which represents an increase in all segments g's of 1,5% and a decrease in each Ru of 1,5%. The opposite scenario leaves us with a share price of $120.

Relative Valuation

To perform a relative valuation, several companies, that operate in the same industries as Disney, were selected. We believe that only few companies are relatively close to Disney's business operations as a whole, those being Comcast and Viacom, as these have segments in Media Networks, Parks (Viacom does not), Studio and Streaming. Therefore, we decided to choose some companies that operate in those segments alone. This approach is not very precise, as Disney benefits from the dynamics between the different segments, and the fact that it is a conglomerate comes with a better risk diversification, as the success or failure of one segment will affect the others.

We think that these multiples valuation does not in any way reflect the way a company like Disney should be evaluated, since it operates in industries that have little or nothing to do with each other and because it is in a phase of extreme change, with the appearance of their streaming platform. Given these facts, we undoubtably think that the best way to do a valuation of TDWC is through a DCF of the Sum of Parts.

EV/EBITDA FY2	Multiples
Media Networks	8,3
Parks, Experiences and Produtcs	23,7
Studio Entertainment	15,7
Direct to consumer and International	30,0

Table 21 - Segment's EV/EBITDA FY2 multiples.
Source: Bloomberg Estimates.

P/E FY2	Multiples
Media Networks	10,3
Parks, Experiences and Produtcs	48,8
Studio Entertainment	28,3
Direct to consumer and International	50,2

Table 22 - Segment's P/E FY2 multiples.
Source: Bloomberg Estimates.

Moreover, the current panorama, with Covid-19, metrics like P/E, EV/NOPLAT or EV/EBITDA are distorted, due to the negative results that mature companies operating in the hospitality and entertainment industries are presenting, which makes it impossible to execute these same metrics. Despite this, we decided to use two forward metrics that takes into account the future results of the selected peers (based on the consensus of several researchers, taken from Bloomberg) and Disney itself (based on our projections), EV/EBITDA FY2 and P/E FY2. This way we obtain normalized results and thus surpass the Covid-19 obstacle.

Through the EV/EBITDA FY2 (Table 21), when we apply the 2-year forward multiple to the respective EBITDA from each segment we get a Price per Share of $171,36 in 30th of September (end of Disney's 2021 Fiscal Year, our targeted valuation date). Lastly, in order to execute the P/E FY2 approach (Table 22), we take into account the multiples from our peers and apply it to the respective EPS of each Disney's segment, resulting in a Price per Share of $198,10.

Valuation

PE&P	2020FY	2025FY	2030FY	2035FY
Revenues	71 498	117 142	151 868	183 878
Gross Margin	32%	47%	52%	55%
Core Result	5 618	23 027	35 491	46 825
Net Margin	8%	20%	23%	25%
FCF	13 179	15 384	27 149	37 499
ROIC	4%	13%	16%	18%
Investment Rate	-135%	33%	24%	20%
Growth	-5%	4%	4%	4%

Table 23 - KPIs for TDWC.
Source: Analyst Estimates.

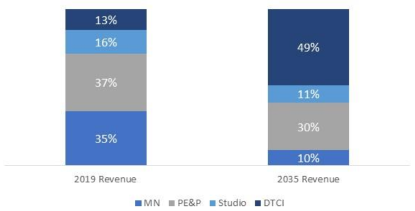

Figure 99 - TWDC Revenue distribution in 2019 Vs 2035.
Source: Analyst Estimates.

Market Capitalization	$	369 337
Target Price	$	204,05
Price 04/01/2021	$	181,18
Expected Return		9,3%
Recommendation		Hold

Table 24 – Disney Final Valuation.
Source: Analyst Estimates.

Looking at the company as a whole (Table 23), we can observe that ROIC grows at a steady pace (reaching 18% in steady state), which is mainly supported by DTCI and its growing platform, Disney+, and Studio Entertainment that will favor with the new dynamics of market that are affecting the film industry.

Regarding NOPLAT, despite the negative effect of Media Networks, it will increase at a CAGR of 9%, being the biggest contributor to this growth, DTCI with the expected large-scale adhesion by the public and the steady growth (as seen in the previous years) of Parks, Experiences and Products, that will continue to provide value for its shareholders (Figure 99).

We forecast an average investment rate of 37% in the 2021-2025 period, reaching 20% in the long term. Thus, resulting in a long-term nominal growth rate (3,5%) for Disney that is in line with the growth of developed economies.

Even though Disney is trading close to our target price, we believe that the market is not considering the benefits of Disney as a whole and the fact that the success of one segment will mean the success of another. Therefore, our model contemplates the deterioration of MN in the long run, however our expectations for DTCI becoming the forefront of Disney's revenues counterbalance the disappearance of the MN segment, and although PE&P is currently facing great adversities, in the long run it will maintain its cash-cow status. The new model for distributing films, despite still a bit unclear and in an embryonic stage, has enormous potential for companies like Disney. And therefore, based on our Adjusted Present Value Valuation, we reached a Market Cap of $ 369,34 billions, resulting in a price per share of $ 204,05 (Table 24).

The closing stock price for Disney (DIS) was $ 181,18 as of January 4th 2021, indicating it is trading at discount of 9,3%. Thus, our final recommendation to investors is to HOLD.

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Appendix

Financial Statements

Income Statement

	2017FY	2018FY	2019FY	2020FY	2021FY	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY	2030FY	2031FY	2032FY	2033FY	2034FY	2035FY
CORE OPERATIONS																			
Media Networks																			
Revenue from Media Networks	21 299	21 922	24 827	28 393	26 885	25 551	24 464	23 550	22 746	22 042	21 413	20 861	20 351	19 873	19 406	18 955	18 516	18 084	17 656
Affiliate fees	11 324	11 907	13 433	15 018	14 794	14 568	14 354	14 138	13 905	13 669	13 430	13 200	12 967	12 729	12 479	12 225	11 966	11 702	11 433
forecasted in drivers Media Networks																			
Advertising	6 938	6 586	6 965	6 374	6 679	6 593	6 513	6 431	6 342	6 252	6 160	6 072	5 983	5 891	5 794	5 694	5 593	5 489	5 383
forecasted in drivers Media Networks																			
TV/SVOD distribution licensing	3 037	3 120	4 046	6 489	5 159	4 130	3 332	2 710	2 223	1 840	1 536	1 295	1 101	945	819	715	629	558	499
forecasted in drivers Media Networks																			
Other	0	309	383	512	254	259	265	270	276	282	288	294	301	307	314	321	328	335	342
forecasted in drivers Media Networks																			
Revenues from Eliminations	(454)	(471)	(1 580)	(3 814)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
forecasted as 0, as it is a non cash expense																			
Operating Expenses	(12 754)	(13 197)	(15 499)	(17 387)	(16 177)	(15 376)	(14 728)	(14 185)	(13 707)	(13 289)	(12 915)	(12 589)	(12 287)	(12 002)	(11 722)	(11 450)	(11 182)	(10 917)	(10 652)
Programming and Production Costs	(9 689)	(10 124)	(12 535)	(14 666)	(13 574)	(12 901)	(12 352)	(11 890)	(11 484)	(11 129)	(10 812)	(10 533)	(10 275)	(10 034)	(9 798)	(9 570)	(9 349)	(9 131)	(8 915)
% of revenues	45%	46%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Payroll	(2 380)	(2 431)	(2 162)	(1 888)	(1 763)	(1 677)	(1 612)	(1 559)	(1 511)	(1 471)	(1 435)	(1 404)	(1 375)	(1 347)	(1 317)	(1 287)	(1 255)	(1 222)	(1 186)
forecasted in drivers Media Networks																			
Other	(685)	(642)	(802)	(833)	(840)	(798)	(764)	(736)	(711)	(689)	(669)	(652)	(636)	(621)	(606)	(592)	(579)	(565)	(552)
% of revenues	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Expenses Eliminations	460	469	1 438	3 441	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
forecasted as 0, as it is a non cash expense	101%	100%	91%	90%															
SG&A and Other	(1 909)	(1 899)	(2 361)	(2 514)	(2 432)	(2 311)	(2 213)	(2 130)	(2 057)	(1 994)	(1 937)	(1 887)	(1 841)	(1 798)	(1 755)	(1 771)	(1 730)	(1 690)	(1 650)
% of revenues	9%	9%	10%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Depreciation	(206)	(199)	(191)	(203)	(219)	(208)	(199)	(192)	(185)	(180)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(173)	(173)
% of net PP&E	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Amortization	0	0	0	(4)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
forecasted at 0 due to immateriality																			
Media Networks Core Result Before Tax (EBIT)	**6 436**	**6 625**	**6 634**	**7 912**	**8 057**	**7 655**	**7 324**	**7 043**	**6 796**	**6 580**	**6 387**	**6 211**	**6 050**	**5 900**	**5 755**	**5 560**	**5 429**	**5 303**	**5 181**
Media Networks Tax	(2 234)	(1 657)	(1 504)	(1 931)	(2 530)	(2 404)	(2 300)	(2 211)	(2 134)	(2 066)	(2 005)	(1 950)	(1 900)	(1 852)	(1 807)	(1 746)	(1 705)	(1 665)	(1 627)
Media Networks Core Result After Tax	**4 202**	**4 968**	**5 130**	**5 981**	**5 527**	**5 251**	**5 024**	**4 831**	**4 662**	**4 514**	**4 381**	**4 261**	**4 150**	**4 047**	**3 948**	**3 814**	**3 724**	**3 638**	**3 554**
																			20,13%
Parks, Experiences and Products																			
Revenue from Parks, Experiences and Products	23 024	24 701	26 225	16 502	24 368	29 159	32 011	34 032	36 300	38 654	40 414	42 255	44 152	46 001	47 889	49 848	51 853	53 908	55 845
Theme park admissions	6 504	7 183	7 540	4 038	7 236	9 066	9 897	10 565	11 168	11 806	12 479	13 189	13 933	14 643	15 381	16 150	16 952	17 792	18 673
forecasted in drivers PE&P																			
Resort and vacations	5 378	5938	6266	3402	5 189	6 244	7 275	7 761	8 611	9 495	9 731	9 972	10 220	10 474	10 734	11 001	11 275	11 555	11 842
forecasted in drivers PE&P																			
Parks & Experiences Merchandise, food and beverage	5 154	5 674	5 963	3 441	5 724	7 172	7 829	8 357	8 835	9 339	9 872	10 433	11 022	11 584	12 168	12 776	13 410	14 075	14 565
% of Theme Park Admissions revenues	79%	79%	79%	85%	79%	79%	79%	79%	79%	79%	79%	79%	79%	79%	79%	79%	79%	79%	78%
Merchandise Licensing and retail	4 494	4 249	4 519	4 185	4 337	4 490	4 651	4 815	4 984	5 157	5 334	5 516	5 703	5 894	6 091	6 293	6 500	6 713	6 933
World population and inflation growth					4%	4%	4%	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Parks licencing and other	1 494	1 657	1 937	1 436	1 881	2 187	2 359	2 534	2 701	2 857	2 997	3 145	3 273	3 406	3 516	3 629	3 715	3 773	3 832
forecasted in drivers PE&P																			
Operating Expenses	(12 455)	(13 326)	(14 015)	(11 485)	(12 323)	(14 005)	(15 111)	(15 887)	(16 241)	(17 085)	(17 727)	(18 396)	(19 082)	(19 759)	(20 449)	(21 162)	(21 890)	(22 634)	(23 367)
Operating Labor	(5 412)	(5 937)	(6 174)	(4 870)	(5 087)	(5 288)	(5 501)	(5 666)	(5 807)	(5 951)	(6 099)	(6 252)	(6 407)	(6 567)	(6 731)	(6 899)	(7 072)	(7 248)	(7 429)
forecasted in drivers PE&P																			
Sales and Distribution Costs	(2 670)	(2 764)	(2 918)	(2 202)	(2 711)	(3 244)	(3 562)	(3 787)	(4 039)	(4 301)	(4 497)	(4 702)	(4 913)	(5 118)	(5 329)	(5 547)	(5 770)	(5 998)	(6 214)
% of revenues	12%	11%	11%	13%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Infrastructure Costs	(2 259)	(2 370)	(2 469)	(2 422)	(2 244)	(2 744)	(3 053)	(3 251)	(3 492)	(3 740)	(3 898)	(4 062)	(4 230)	(4 393)	(4 558)	(4 729)	(4 901)	(5 075)	(5 256)
% of specific revenues	17%	16%	16%	27%	16%	16%	16%	16%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Supplies, Commissions, Entertainment Offerings and Others	(2 114)	(2 255)	(2 454)	(1 991)	(2 280)	(2 729)	(2 995)	(3 185)	(2 904)	(3 092)	(3 233)	(3 380)	(3 532)	(3 680)	(3 831)	(3 988)	(4 148)	(4 313)	(4 468)
% of revenues	9%	9%	9%	12%	9%	9%	9%	9%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
SG&A and Other	(2 896)	(2 930)	(3 133)	(2 642)	(2 911)	(3 484)	(3 808)	(4 032)	(4 282)	(4 552)	(4 751)	(4 959)	(5 173)	(5 381)	(5 592)	(5 811)	(6 034)	(6 262)	(6 476)
% of revenues	13%	12%	12%	16%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Depreciation	(2 050)	(2 217)	(2 198)	(2 328)	(2 290)	(2 450)	(2 695)	(2 884)	(3 172)	(3 490)	(3 734)	(3 958)	(4 196)	(4 439)	(4 687)	(4 941)	(5 197)	(5 457)	(5 719)
% of net PP&E	9%	9%	9%	10%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Amortization	(111)	(110)	(108)	(109)	(111)	(115)	(119)	(125)	(133)	(142)	(148)	(155)	(162)	(169)	(176)	(183)	(191)	(198)	(205)
% of intagibles	111%	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Parks, Experience and Products Core Result Before Tax (EBIT)	**5 512**	**6 118**	**6 771**	**(62)**	**6 733**	**9 106**	**10 278**	**11 104**	**12 470**	**13 385**	**14 053**	**14 787**	**15 539**	**16 253**	**16 985**	**17 752**	**18 540**	**19 356**	**20 077**
Parks, Experiences and Products Core Tax	(1 895)	(1 523)	(1 536)	15	(2 114)	(2 859)	(3 227)	(3 487)	(3 916)	(4 203)	(4 413)	(4 643)	(4 879)	(5 103)	(5 333)	(5 574)	(5 822)	(6 078)	(6 304)
Parks, Experiences and Products Core Result After Tax	**3 617**	**4 595**	**5 235**	**(47)**	**4 619**	**6 247**	**7 050**	**7 618**	**8 554**	**9 182**	**9 640**	**10 144**	**10 659**	**11 150**	**11 652**	**12 178**	**12 719**	**13 278**	**13 773**
Studio Entertainment																			
Revenue from Studio Entertainment	8 352	10 065	11 127	9 636	13 198	13 604	14 055	14 541	15 061	15 637	16 241	16 868	17 459	18 040	18 614	19 185	19 755	20 325	20 913
Theatrical distribution licensing	2 903	4 303	4 726	2 134	5 320	5 628	5 972	6 345	6 747	7 199	7 674	8 167	8 619	9 054	9 478	9 893	10 300	10 702	11 115
forecasted in drivers Studio																			
TV/SVOD distribution licensing	2 145	2 340	2 920	4 557	4 653	4 750	4 855	4 962	5 071	5 182	5 296	5 413	5 532	5 654	5 778	5 905	6 035	6 168	6 304
inflation rate					2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Home entertainment	1 677	1 647	1 734	1 528	1 757	1 704	1 653	1 604	1 556	1 509	1 464	1 420	1 377	1 336	1 296	1 257	1 219	1 183	1 147
growth					15%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%	-3%
Merchandise licensing & Other	1 627	1 775	1 747	1 417	1468	1520	1575	1630	1688	1746	1806	1868	1931	1996	2062	2131	2201	2273	2347
World population and inflation growth					4%	4%	4%	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Revenue from Eliminations	(159)	(197)	(378)	(2 296)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Expenses	(3 718)	(4 449)	(5 187)	(4 619)	(5 034)	(5 145)	(5 267)	(5 390)	(5 495)	(5 606)	(5 718)	(5 832)	(5 934)	(6 033)	(6 130)	(6 225)	(6 319)	(6 413)	(6 506)
Film Cost Amortization	(2 562)	(3 187)	(3 762)	(3 643)	(3 457)	(3 530)	(3 607)	(3 687)	(3 768)	(3 851)	(3 936)	(4 022)	(4 111)	(4 201)	(4 293)	(4 388)	(4 484)	(4 583)	(4 684)
amortization per film released and inflation growth	320	290	314	607	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308
COGS & Distribution Costs	(845)	(931)	(1 164)	(836)	(1 381)	(1 409)	(1 442)	(1 477)	(1 493)	(1 511)	(1 528)	(1 545)	(1 547)	(1 544)	(1 538)	(1 527)	(1 513)	(1 496)	(1 477)
% of revenues	10%	9%	10%	9%	10%	10%	10%	10%	10%	10%	9%	9%	9%	9%	8%	8%	8%	7%	7%
Payroll	(311)	(331)	(261)	(140)	(196)	(206)	(217)	(226)	(235)	(244)	(254)	(265)	(276)	(287)	(298)	(310)	(321)	(333)	(346)
forecasted in drivers Studio																			
Expenses Eliminations	166	189	279	2 141	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SG&A and Other	(2 156)	(2 493)	(3 119)	(2 369)	(3 564)	(3 585)	(3 612)	(3 642)	(3 675)	(3 714)	(3 752)	(3 787)	(3 806)	(3 815)	(3 816)	(3 808)	(3 793)	(3 770)	(3 743)
% of revenues	26%	25%	28%	25%	27%	26%	26%	25%	24%	24%	23%	22%	22%	21%	21%	20%	19%	19%	18%
Depreciation	(50)	(55)	(74)	(87)	(53)	(74)	(80)	(78)	(81)	(84)	(86)	(90)	(93)	(97)	(100)	(104)	(107)	(111)	(114)
% of net PP&E	9%	9%	9%	10%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Amortization	(65)	(64)	(61)	(59)	(75)	(77)	(80)	(83)	(86)	(89)	(92)	(96)	(99)	(103)	(106)	(109)	(112)	(116)	(119)
% of intagibles	4%	4%	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Studio Entertainment Core Result Before Taxes (EBIT)	**2 370**	**2 996**	**2 587**	**2 347**	**4 473**	**4 722**	**5 016**	**5 347**	**5 724**	**6 145**	**6 592**	**7 063**	**7 527**	**7 992**	**8 463**	**8 939**	**9 423**	**9 916**	**10 430**
Studio Entertainment Core Taxes	(742)	(699)	(565)	(573)	(1 405)	(1 483)	(1 575)	(1 679)	(1 797)	(1 929)	(2 070)	(2 218)	(2 363)	(2 510)	(2 657)	(2 807)	(2 959)	(3 114)	(3 275)
Studio Entertainment Core Result	**1 628**	**2 297**	**2 022**	**1 774**	**3 068**	**3 240**	**3 441**	**3 668**	**3 926**	**4 215**	**4 522**	**4 845**	**5 163**	**5 483**	**5 805**	**6 132**	**6 464**	**6 802**	**7 155**
Direct to Consumer & International																			
Revenues from Direct to Consumer & International	3 075	3 414	9 386	16 967	23 643	27 670	32 643	38 308	43 036	48 114	52 979	58 085	63 092	67 955	72 266	76 320	80 534	84 913	89 463
Affiliate fees	1 335	1 372	2 768	3 673	3 591	3 504	3 417	3 332	3 252	3 178	3 105	3 035	2 966	2 899	2 834	2 771	2 710	2 650	2 592
forecasted in drivers DTCI																			
Advertising	1 293	1 311	3 542	4 477	5 789	6 099	6 421	6 759	7 123	7 513	7 887	8 268	8 648	9 015	9 342	9 684	10 040	10 410	10 796
forecasted in drivers DTCI																			
TV/SVOD distribution licensing	0	105	482	745	592	471	374	298	237	188	150	119	95	75	60	47	38	30	24
forecasted in drivers DTCI																			
Subscription fees	447	168	2 115	7 645	13 670	17 595	22 431	27 920	32 424	37 236	41 838	46 663	51 384	55 966	60 029	63 817	67 747	71 823	76 051
forecasted in drivers DTCI																			
Merchandise licensing, Home entertainment & Other	0	458	479	427	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
forecasted in drivers DTCI																			
Operating Expenses	(1 983)	(2 384)	(8 540)	(15 072)	(18 637)	(20 514)	(22 688)	(24 891)	(26 516)	(28 726)	(30 598)	(32 402)	(33 943)	(35 199)	(36 335)	(37 227)	(38 876)	(40 558)	(42 275)
Programming and Production Costs	(1 090)	(1 209)	(5 697)	(11 051)	(13 641)	(15 411)	(17 528)	(19 804)	(21 387)	(23 430)	(25 269)	(27 123)	(28 830)	(30 373)	(31 938)	(33 349)	(34 787)	(36 254)	(37 750)
% of total DTCI revenues	35%	35%	61%	60%	58%	56%	54%	52%	50%	49%	48%	47%	46%	45%	44%	44%	43%	43%	42%
Payroll	(335)	(363)	(1 228)	(1 255)	(1 281)	(1 308)	(1 337)	(1 367)	(1 379)	(1 585)	(1 773)	(1 960)	(2 140)	(2 304)	(2 436)	(2 571)	(2 709)	(2 850)	(2 994)
forecasted in drivers DTCI																			
Other Operating Expenses	(558)	(812)	(1 615)	(2 766)	(3 715)	(3 794)	(3 823)	(3 721)	(3 750)	(3 711)	(3 556)	(3 318)	(2 973)	(2 523)	(1 960)	(1 307)	(1 379)	(1 454)	(1 532)
% of total DTCI revenues	18,15%	23,78%	17,21%	17,71%	16%	14%	12%	10%	9%	8%	7%	6%	5%	4%	3%	2%	2%	2%	2%
SG&A and Other	(861)	(1 003)	(2 116)	(4 201)	(4 857)	(5 408)	(6 053)	(6 721)	(7 120)	(7 479)	(7 705)	(8 448)	(9 176)	(9 883)	(10 510)	(11 100)	(11 713)	(12 350)	(13 012)
	28%	29%	23%	22%	20,5%	19,5%	18,5%	17,5%	16,5%	15,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%
Depreciation	(74)	(106)	(214)	(348)	(371)	(431)	(495)	(564)	(638)	(714)	(793)	(872)	(948)	(1 018)	(1 080)	(1 132)	(1 172)	(1 219)	(1 267)
% of PP&E	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Amortization	(20)	(79)	(111)	(112)	(129)	(142)	(156)	(170)	(185)	(200)	(216)	(231)	(247)	(262)	(278)	(292)	(307)	(323)	(339)
% of Intagibles	1%	16%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Direct to Consumer & International Core Result Before Taxes (EBIT)	**137**	**(158)**	**(1 595)**	**(2 766)**	**(352)**	**1 176**	**3 250**	**5 962**	**8 577**	**10 996**	**13 667**	**16 132**	**18 777**	**21 592**	**24 062**	**26 569**	**28 467**	**30 464**	**32 570**
Direct to Consumer & International Core Taxes	77	134	405	675	110	(369)	(1 021)	(1 872)	(2 693)	(3 453)	(4 291)	(5 065)	(5 896)	(6 780)	(7 556)	(8 343)	(8 939)	(9 566)	(10 227)
Direct to Consumer & International Core Result	**214**	**(24)**	**(1 190)**	**(2 091)**	**(241)**	**807**	**2 230**	**4 090**	**5 884**	**7 543**	**9 375**	**11 067**	**12 881**	**14 812**	**16 507**	**18 226**	**19 528**	**20 898**	**22 343**
Corporate																			
Depreciation	(206)	(181)	(167)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)
SG&A and Other	(354)	(535)	(820)	(643)	(836)	(656)	(853)	(669)	(870)	(682)	(888)	(696)	(905)	(710)	(923)	(724)	(942)	(739)	(961)
Corporate Core Result Before Taxes (EBIT)	**(560)**	**(716)**	**(987)**	**(817)**	**(1 010)**	**(830)**	**(1 027)**	**(843)**	**(1 044)**	**(856)**	**(1 062)**	**(870)**	**(1 079)**	**(884)**	**(1 097)**	**(898)**	**(1 116)**	**(913)**	**(1 135)**
Corporate Core Taxes	206	189	229	199	317	261	323	265	328	269	333	273	339	278	345	282	350	287	356
Corporate Core Result	**(354)**	**(527)**	**(758)**	**(618)**	**(693)**	**(569)**	**(705)**	**(578)**	**(716)**	**(587)**	**(728)**	**(597)**	**(740)**	**(606)**	**(753)**	**(616)**	**(766)**	**(626)**	**(778)**
NON CORE OPERATIONS																			
Other Expenses	(22)	(28)	(537)	(899)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity in the income of investees	320	(102)	(103)	651	651	651	651	651	651	651	651	651	651	651	651	651	651	651	651
Other Income	78	601	4 357	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038	1 038
Restructuring and Impairment Charges	(98)	(33)	(1 183)	(5 735)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization TFCF and Hulu intangible assets	0	0	(1 043)	(1 921)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Income	122	108	268	156	206	206	206	206	206	206	206	206	206	206	206	206	206	206	206
% of investments	4%	4%	8%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Income from discontinued operations (includes tax expense of $35, $0 and $0, respectively)	0	0	687	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Non Core Result Before Taxes	**400**	**546**	**2 446**	**(6 742)**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**	**1 863**
Non Core Taxes	(19)	1 713	(343)	513	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)
Non Core Result Before OCI	**381**	**2 259**	**2 103**	**(6 229)**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**	**1 278**
OCI	426	359	(2 879)	359	341	324	308	292	278	264	251	238	226	215	204	194	184	175	166
Non Core Result	**807**	**2 618**	**(776)**	**(5 870)**	**1 619**	**1 602**	**1 586**	**1 571**	**1 556**	**1 542**	**1 529**	**1 516**	**1 504**	**1 493**	**1 482**	**1 472**	**1 462**	**1 453**	**1 444**
Financial																			
Short term Interest Expense	(87)	(108)	(229)	(156)															
Interest Expense	(420)	(574)	(1 017)	(1 491)	(960)	(728)	(510)	(240)	0	0	0	0	0	0	0	0	0	0	0
Total Interest	**(507)**	**(682)**	**(1 246)**	**(1 647)**	**(960)**	**(728)**	**(510)**	**(240)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial Tax	186	180	289	402	302	228	160	75	0	0	0	0	0	0	0	0	0	0	0
Financial Result After Taxes	**(321)**	**(502)**	**(957)**	**(1 245)**	**(659)**	**(499)**	**(350)**	**(165)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Check	9 792	13 425	8 705	(2 115)															
Comprehensive Income	**9 792**	**13 425**	**8 705**	**(2 115)**	**13 241**	**16 078**	**18 276**	**21 034**	**23 867**	**26 409**	**28 719**	**31 236**	**33 618**	**36 378**	**38 641**	**41 206**	**43 133**	**45 444**	**47 491**

NOVA SCHOOL OF BUSINESS & ECONOMICS

Balance Sheet

CORE INVESTED CAPITAL	2017FY	2018FY	2019FY	2020FY	2021FY	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY	2030FY	2031FY	2032FY	2033FY	2034FY	2035FY
Media Networks																			
Operating Cash	426	438	497	568	538	511	489	471	455	441	428	417	407	397	388	379	370	362	353
% of revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts Receivable	5 446	5 612	8 888	7 787	7 374	7 008	6 710	6 459	6 238	6 045	5 873	5 721	5 582	5 450	5 322	5 199	5 078	4 960	4 842
days' sales	93	93	131	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Payroll and Employee Benefits	(379)	(452)	(486)	(427)	(391)	(364)	(342)	(324)	(308)	(293)	(280)	(268)	(257)	(246)	(236)	(225)	(215)	(205)	(195)
% of employees	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Accounts Payable	(3 243)	(3 225)	(5 886)	(5 322)	(4 952)	(4 707)	(4 508)	(4 342)	(4 195)	(4 068)	(3 953)	(3 853)	(3 761)	(3 641)	(3 524)	(3 411)	(3 300)	(3 192)	(3 085)
days' COGS	93	89	139	112	112	112	112	112	112	112	112	112	112	111	110	109	108	107	106
Total Core Current IC Media Networks	**2 251**	**2 373**	**3 013**	**2 606**	**2 569**	**2 448**	**2 348**	**2 264**	**2 190**	**2 125**	**2 068**	**2 017**	**1 971**	**1 961**	**1 951**	**1 942**	**1 933**	**1 924**	**1 916**
Television Costs Rights and Advances	2 696	2 810	12 497	10 201	9 410	8 943	8 562	8 242	7 961	7 715	7 495	7 301	7 123	6 956	6 792	6 634	6 481	6 329	6 180
regression coefficient	28%	28%	100%	70%															
Net PP&E	2 263	2 131	2 122	2 074	2 433	2 312	2 214	2 131	2 058	1 995	1 938	1 936	1 935	1 936	1 935	1 933	1 931	1 928	1 923
%of revenue	11%	10%	9%	7%	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%	10%	10%	11%	11%
Intangible Assets, net	2 021	1 546	7 861	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242	7 242
Goodwill	16 325	15 989	33 423	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991	33 991
Total Core Non Current IC Media Networks	**23 305**	**22 477**	**55 904**	**53 507**	**53 076**	**52 488**	**52 009**	**51 607**	**51 252**	**50 942**	**50 666**	**50 470**	**50 291**	**50 124**	**49 960**	**49 801**	**49 645**	**49 490**	**49 335**
Parks, Experiences and Products																			
Operating Cash	460	494	525	330	487	583	640	681	726	773	808	845	883	920	958	997	1 037	1 078	1 117
% of revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Inventories	1 373	1 392	1 649	1 583	1 725	1 552	1 674	1 760	1 799	1 893	1 964	2 038	2 114	2 189	2 265	2 344	2 425	2 508	2 589
% COGS	11%	10%	12%	14%	14%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Accounts Receivable	1 149	1 088	1 618	1 148	1 307	1 353	1 402	1 451	1 502	1 554	1 608	1 662	1 719	1 776	1 836	1 896	1 959	2 023	2 089
days' sales	93	93	131	100	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110
Other Current Assets Net of Restricted Cash and Derivative Positions	505	575	871	730	637	762	837	890	949	1 010	1 056	1 105	1 154	1 203	1 252	1 303	1 356	1 409	1 460
% of revenues	2%	2%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Deferred Revenue and Other	(3 538)	(3 694)	(3 192)	(1 510)	(3 186)	(3 925)	(4 334)	(4 551)	(4 833)	(5 120)	(5 250)	(5 382)	(5 516)	(5 635)	(5 755)	(5 875)	(5 994)	(6 115)	(6 236)
% of specific revenues	30%	28%	23%	20%	26%	26%	25%	25%	24%	24%	24%	23%	23%	22%	22%	22%	21%	21%	20%
Payroll and Employee Benefits	(1 364)	(1 642)	(2 258)	(2 151)	(1 767)	(1 802)	(1 838)	(1 857)	(1 866)	(1 875)	(1 885)	(1 894)	(1 904)	(1 913)	(1 923)	(1 932)	(1 942)	(1 952)	(1 961)
% of employees	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Accounts Payable	(2 201)	(2 214)	(3 460)	(2 271)	(2 541)	(3 037)	(3 322)	(3 505)	(3 550)	(3 757)	(3 892)	(4 032)	(4 173)	(4 307)	(4 441)	(4 579)	(4 716)	(4 855)	(4 985)
days' COGS	114	109	161	125	128	127	126	125	124	123	122	121	120	119	118	117	116	115	114
Total Core Current IC Parks, Experiences and Products	**(3 616)**	**(4 000)**	**(4 248)**	**(2 141)**	**(3 337)**	**(4 514)**	**(4 941)**	**(5 132)**	**(5 273)**	**(5 522)**	**(5 590)**	**(5 657)**	**(5 722)**	**(5 768)**	**(5 808)**	**(5 845)**	**(5 876)**	**(5 903)**	**(5 928)**
Net PP&E	22 518	23 746	24 425	23 783	25 447	27 229	29 952	32 048	35 253	38 778	41 493	43 982	46 621	49 325	52 088	54 900	57 755	60 643	63 554
% growth		5%	3%	-3%	7%	7%	10%	7%	10%	10%	7%	6%	6%	6%	6%	5%	5%	5%	5%
Goodwill	291	4 487	5 535	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550	5 550
Intangible Assets, net	100	3 167	3 122	3 066	3 127	3 221	3 350	3 517	3 752	3 995	4 177	4 367	4 563	4 754	4 950	5 152	5 359	5 572	5 772
% revenue growth and % growth					2%	3%	4%	5%	7%	6%	5%	5%	4%	4%	4%	4%	4%	4%	4%
Total Core Non Current IC Parks, Experiences and Products	**22 909**	**31 400**	**33 082**	**32 399**	**34 125**	**36 000**	**38 852**	**41 116**	**44 555**	**48 324**	**51 220**	**53 900**	**56 735**	**59 630**	**62 587**	**65 603**	**68 665**	**71 765**	**74 876**
Studio Entertainment																			
Operating Cash	167	201	223	193	264	272	281	291	301	313	325	337	349	361	372	384	395	407	418
% of revenues		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts Receivable	1 707	2 155	3 363	2 224	3 317	3 450	3 595	3 750	3 915	4 096	4 284	4 478	4 662	4 842	5 021	5 197	5 374	5 550	5 730
days' Sales	93	93	131	100	106	106	106	106	106	106	106	106	106	106	106	106	106	106	106
Deferred revenue and Other	(499)	(464)	(401)	(310)	(475)	(460)	(447)	(433)	(420)	(408)	(395)	(384)	(372)	(361)	(350)	(340)	(329)	(320)	(310)
% of specific revenues	30%	28%	23%	20%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%
Payroll and Employee Benefits	(33)	(42)	(45)	(24)	(27)	(28)	(29)	(29)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(34)	(34)	(35)	(35)
% of employees	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Accounts Payable	(1 065)	(1 234)	(2 174)	(1 538)	(1 699)	(1 721)	(1 745)	(1 771)	(1 790)	(1 809)	(1 829)	(1 848)	(1 863)	(1 876)	(1 888)	(1 899)	(1 909)	(1 918)	(1 927)
days' COGS	114	109	161	125	128	127	126	125	124	123	122	121	120	119	118	117	116	115	114
Total Core Current IC Studio Entertainment	**277**	**617**	**965**	**544**	**1 380**	**1 513**	**1 656**	**1 808**	**1 977**	**2 161**	**2 354**	**2 553**	**2 745**	**2 934**	**3 122**	**3 309**	**3 496**	**3 684**	**3 876**
Net PP&E	549	589	822	889	872	899	929	961	995	1 033	1 073	1 114	1 153	1 192	1 230	1 267	1 305	1 343	1 382
% of revenue	7%	6%	7%	9%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Theatrical Film Costs Advances	5 164	5 455	9 554	10 192	10 916	11 690	12 519	13 407	14 357	15 374	16 462	17 627	18 864	20 181	21 584	23 076	24 663	26 351	28 146
% growth		6%	75%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Intangible Assets, net	1 543	1 479	2 085	2 031	2 092	2 156	2 228	2 305	2 387	2 478	2 574	2 674	2 767	2 859	2 950	3 041	3 131	3 222	3 315
% revenue growth		-4%	41%	-3%	3%	3%	3%	3%	4%	4%	4%	4%	4%	3%	3%	3%	3%	3%	3%
Goodwill	6 817	7 094	17 797	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795	17 795
Total Core Non Current IC Studio Entertainment	**14 073**	**14 617**	**30 258**	**30 907**	**31 674**	**32 540**	**33 471**	**34 467**	**35 534**	**36 680**	**37 904**	**39 210**	**40 580**	**42 027**	**43 559**	**45 179**	**46 895**	**48 711**	**50 637**
Direct to Consumer & International																			
Operating Cash	62	68	188	339	441	573	631	694	763	840	924	1 016	1 118	1 229	1 352	1 487	1 636	1 800	1 980
	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts Receivable	331	480	1 612	1 549	1 596	1 644	1 693	1 744	1 796	1 850	1 905	1 963	2 022	2 082	2 145	2 209	2 275	2 343	2 414
days' dales	93	93	131	100	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104
Deferred revenue and Other	(531)	(434)	(1 129)	(2 296)	(3 416)	(4 070)	(4 857)	(5 716)	(6 347)	(6 987)	(7 546)	(8 096)	(8 582)	(9 000)	(9 297)	(9 515)	(9 716)	(9 897)	(10 058)
% of revenues	30%	28%	23%	20%	20%	19%	19%	18%	18%	17%	17%	16%	16%	15%	15%	14%	14%	13%	13%
Payroll and Employee Benefits	(43)	(54)	(221)	(322)	(183)	(183)	(183)	(183)	(181)	(204)	(223)	(241)	(258)	(272)	(281)	(290)	(299)	(308)	(316)
	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Accounts Payable	(515)	(605)	(3 227)	(4 744)	(4 497)	(4 870)	(5 298)	(5 715)	(5 879)	(6 120)	(6 254)	(6 341)	(6 345)	(6 269)	(6 154)	(5 969)	(5 750)	(5 496)	(5 206)
days' COGS	114	109	161	125	120	115	110	105	100	95	90	85	80	75	70	65	60	55	50
Total Core Current IC DTCI	**(696)**	**(545)**	**(2 777)**	**(5 474)**	**(6 059)**	**(6 906)**	**(8 014)**	**(9 176)**	**(9 847)**	**(10 621)**	**(11 194)**	**(11 700)**	**(12 046)**	**(12 229)**	**(12 236)**	**(12 079)**	**(11 854)**	**(11 558)**	**(11 187)**
Net PP&E	813	1 135	2 378	3 555	4 124	4 784	5 501	6 272	7 087	7 937	8 810	9 691	10 535	11 314	12 004	12 581	13 021	13 542	14 083
% growth					16%	16%	15%	14%	13%	12%	11%	10%	9%	7%	6%	5%	4%	4%	4%
Television Costs Rights and Advances	899	937	5 356	6 800	12 319	14 417	17 008	19 959	22 423	25 069	27 603	30 264	32 872	35 406	37 652	39 764	41 960	44 242	46 612
Intangible Assets, net	3 201	490	9 962	6 814	7 836	8 620	9 482	10 335	11 265	12 166	13 140	14 059	15 044	15 946	16 903	17 765	18 671	19 623	20 624
% growth					15%	10%	10%	9%	9%	8%	8%	7%	7%	6%	6%	5%	5%	5%	5%
Goodwill	4 393	3 699	23 538	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353	20 353
Total Core Non Current IC DTCI	**9 306**	**6 261**	**41 234**	**37 523**	**44 632**	**48 173**	**52 344**	**56 919**	**61 128**	**65 525**	**69 906**	**74 367**	**78 804**	**83 019**	**86 912**	**90 463**	**94 005**	**97 760**	**101 673**
Corporate																			
Net PP&E	2 263	1 939	1 856	1 778	1 831	1 886	1 942	2 001	2 061	2 123	2 186	2 252	2 319	2 389	2 461	2 534	2 610	2 689	2 769
					3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Intangible Assets, net	130	130	185	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
					0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Core Invested Capital	**70 201**	**75 268**	**159 471**	**151 667**	**159 911**	**163 648**	**169 686**	**175 893**	**183 596**	**191 758**	**199 540**	**207 432**	**215 696**	**224 108**	**232 528**	**240 928**	**249 539**	**258 581**	**267 988**
NON-CORE INVESTED CAPITAL																			
Investments	3 202	2 899	3 224	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903	3 903
Other assets Net of Derivative Instruments and Restriced Cash	2 364	3 321	4 562	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397	8 397
Restricted Cash Posted as Collateral for Derivative Instruments	47	5	37	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
Net Derivative Positions	(136)	(60)	166	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Deferred income taxes	(4 480)	(3 109)	(7 902)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)	(7 288)
Other long-term liabilities	(2 972)	(3 692)	(8 774)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)	(10 753)
Unallocated Goodwill	3 600	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pension and postretirement medical plan liabilities	(3 281)	(2 712)	(4 783)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)	(6 451)
Total Non Core Invested Capital	**(1 656)**	**(3 348)**	**(13 470)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**	**(12 068)**
Total Invested Capital	**68 545**	**71 920**	**146 001**	**139 599**	**147 843**	**151 580**	**157 618**	**163 825**	**171 528**	**179 690**	**187 472**	**195 364**	**203 628**	**212 040**	**220 460**	**228 860**	**237 471**	**246 513**	**255 920**
FINANCING																			
Excess Cash	2 902	2 948	3 987	16 484	0	0	0	0	1 867	14 409	29 142	45 741	63 836	83 948	105 828	129 740	154 953	181 548	209 384
Current portion of borrowings, Net of Derivative Instruments, including leases	(6 047)	(3 687)	(8 861)	(5 654)															
Borrowings, including leases	(19 248)	(17 226)	(38 275)	(52 917)	(36 563)	(27 702)	(19 418)	(9 138)	0	0	0	0	0	0	0	0	0	0	0
Redeemable noncontrolling interests	(1 148)	(1 123)	(8 963)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)	(9 249)
Net Financial Assets	**(23 541)**	**(19 088)**	**(52 112)**	**(51 336)**	**(45 812)**	**(36 951)**	**(28 667)**	**(18 387)**	**(7 382)**	**5 160**	**19 893**	**36 492**	**54 587**	**74 699**	**96 579**	**120 491**	**145 704**	**172 299**	**200 135**
Equity																			
Common Stock	36 248	36 779	53 907	54 497															
Retained Earnings	72 606	82 679	42 494	38 315															
Accumulated other comprehensive loss	(3 528)	(3 097)	(6 617)	(8 322)															
Treasury Stock	(64 011)	(67 588)	(907)	(907)															
Total Disney Shareholders' equity	**41 315**	**48 773**	**88 877**	**83 583**	**96 824**	**108 777**	**122 365**	**138 003**	**155 748**	**175 382**	**196 734**	**219 956**	**244 950**	**271 996**	**300 725**	**331 360**	**363 428**	**397 214**	**432 522**
Noncontrolling interests	**(3 689)**	**(4 059)**	**(5 012)**	**(4 680)**	**(5 207)**	**(5 851)**	**(6 586)**	**(7 434)**	**(8 399)**	**(9 468)**	**(10 631)**	**(11 899)**	**(13 264)**	**(14 743)**	**(16 314)**	**(17 991)**	**(19 747)**	**(21 598)**	**(23 532)**
Total Equity	**45 004**	**52 832**	**93 889**	**88 263**	**102 031**	**114 628**	**128 951**	**145 437**	**164 146**	**184 849**	**207 365**	**231 855**	**258 214**	**286 739**	**317 039**	**349 351**	**383 175**	**418 812**	**456 055**

Cash Flow Map

$ millions	2017FY	2018FY	2019FY	2020FY	2021FY	2022FY	2023FY	2024FY	2025FY	2026FY	2027FY	2028FY	2029FY	2030FY	2031FY	2032FY	2033FY	2034FY	2035FY
OPERATING ACTIVITIES																			
NOPLAT	9 306	11 309	10 438	5 000	12 280	14 975	17 040	19 629	22 311	24 867	27 190	29 719	32 114	34 885	37 159	39 734	41 670	43 991	46 047
Depreciation and amortization	(2 782)	(3 011)	(3 124)	(3 424)	(3 422)	(3 671)	(3 999)	(4 270)	(4 655)	(5 072)	(5 419)	(5 750)	(6 094)	(6 436)	(6 776)	(7 109)	(7 434)	(7 770)	(8 111)
Gross Cash Flow From Operations	12 088	14 320	13 562	8 424	15 702	18 646	21 039	23 899	26 966	29 939	32 609	35 470	38 207	41 321	43 935	46 843	49 104	51 761	54 158
Media Networks																			
NWC	2 251	2 373	3 013	2 606	2 569	2 448	2 348	2 264	2 190	2 125	2 068	2 017	1 971	1 961	1 951	1 942	1 933	1 924	1 916
Cash Flow in Net Working Capital		(122)	(640)	407	37	121	100	84	74	65	58	51	46	10	10	9	9	9	9
Parks, Experiences and Products																			
NWC	(3 616)	(4 000)	(4 248)	(2 141)	(3 337)	(4 514)	(4 941)	(5 132)	(5 273)	(5 522)	(5 590)	(5 657)	(5 722)	(5 768)	(5 808)	(5 845)	(5 876)	(5 903)	(5 928)
Cash Flow in Net Working Capital		384	247	(2 106)	1 195	1 177	427	191	141	249	68	67	65	45	41	36	32	27	25
Studio Entertainment																			
NWC	277	617	965	544	1 380	1 513	1 656	1 808	1 977	2 161	2 354	2 553	2 745	2 934	3 122	3 309	3 496	3 684	3 876
Cash Flow in Net Working Capital		(341)	(348)	421	(836)	(132)	(143)	(152)	(169)	(185)	(192)	(199)	(192)	(189)	(188)	(187)	(187)	(187)	(193)
Direct to Consumer & International																			
NWC	(696)	(545)	(2 777)	(5 474)	(6 059)	(6 906)	(8 014)	(9 176)	(9 847)	(10 621)	(11 194)	(11 700)	(12 046)	(12 229)	(12 236)	(12 079)	(11 854)	(11 558)	(11 187)
Cash Flow in Net Working Capital		(151)	2 232	2 697	585	846	1 109	1 162	671	774	573	506	346	183	7	(157)	(225)	(296)	(371)
Total NWC	(1 785)	(1 555)	(3 047)	(4 466)	(5 447)	(7 459)	(8 952)	(10 236)	(10 954)	(11 856)	(12 362)	(12 787)	(13 053)	(13 102)	(12 971)	(12 672)	(12 301)	(11 853)	(11 323)
Total Cash Flow in Net Working Capital	0	(230)	1 492	1 419	981	2 013	1 492	1 285	717	903	506	425	266	49	(131)	(299)	(371)	(448)	(530)
Media Networks																			
Total Core Non Current IC Media Networks	2 696	2 810	12 497	10 201	9 410	8 943	8 562	8 242	7 961	7 715	7 495	7 301	7 123	6 956	6 792	6 634	6 481	6 329	6 180
Cash Flow		(114)	(9 687)	2 297	791	467	380	320	281	246	220	193	178	167	164	158	154	151	150
PP&E																			
Net PP&E	2 263	2 131	2 122	2 074	2 433	2 312	2 214	2 131	2 058	1 995	1 938	1 936	1 935	1 936	1 935	1 933	1 931	1 928	1 923
Period Depreciation	(206)	(199)	(191)	(203)	(219)	(208)	(199)	(192)	(185)	(180)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(173)	(173)
Net Capital Expenditure Cash Flow		(68)	(182)	(154)	(578)	(87)	(101)	(109)	(112)	(116)	(118)	(172)	(174)	(174)	(173)	(173)	(172)	(170)	(168)
Parks, Experiences and Products																			
PP&E																			
Net PP&E	22 518	23 746	24 425	23 783	25 447	27 229	29 952	32 048	35 253	38 778	41 493	43 982	46 621	49 325	52 088	54 900	57 755	60 643	63 554
Period Depreciation	(2 050)	(2 217)	(2 198)	(2 328)	(2 290)	(2 450)	(2 695)	(2 884)	(3 172)	(3 490)	(3 734)	(3 958)	(4 196)	(4 439)	(4 687)	(4 941)	(5 197)	(5 457)	(5 719)
Net Capital Expenditure Cash Flow		(3 444)	(2 877)	(1 686)	(3 955)	(4 232)	(5 418)	(4 981)	(6 377)	(7 015)	(6 448)	(6 448)	(6 834)	(7 143)	(7 450)	(7 753)	(8 052)	(8 345)	(8 630)
Studio Entertainment																			
Total Core Non Current IC Studio Entertainment	5 164	5 455	9 554	10 192	10 916	11 690	12 519	13 407	14 357	15 374	16 462	17 627	18 864	20 181	21 584	23 076	24 663	26 351	28 146
Cash Flow		(291)	(4 099)	(638)	(724)	(775)	(829)	(888)	(950)	(1 017)	(1 088)	(1 165)	(1 237)	(1 317)	(1 402)	(1 492)	(1 587)	(1 688)	(1 795)
PP&E																			
Net PP&E	549	589	822	889	872	899	929	961	995	1 033	1 073	1 114	1 153	1 192	1 230	1 267	1 305	1 343	1 382
Period Depreciation	(50)	(55)	(74)	(87)	(53)	(74)	(80)	(78)	(81)	(84)	(86)	(90)	(93)	(97)	(100)	(104)	(107)	(111)	(114)
Net Capital Expenditure Cash Flow		(95)	(307)	(153)	(36)	(101)	(110)	(111)	(115)	(122)	(126)	(131)	(132)	(135)	(138)	(142)	(145)	(148)	(153)
Direct to Consumer & International																			
Total Core Non Current IC DTCI	899	937	5 356	6 800	12 319	14 417	17 008	19 959	22 423	25 069	27 603	30 264	32 872	35 406	37 652	39 764	41 960	44 242	46 612
Cash Flow		(38)	(4 419)	(1 445)	(5 518)	(2 098)	(2 591)	(2 952)	(2 463)	(2 646)	(2 535)	(2 660)	(2 609)	(2 534)	(2 246)	(2 113)	(2 196)	(2 282)	(2 371)
PP&E																			
Net PP&E	813	1 135	2 378	3 555	4 124	4 784	5 501	6 272	7 087	7 937	8 810	9 691	10 535	11 314	12 004	12 581	13 021	13 542	14 083
Period Depreciation	(74)	(106)	(214)	(348)	(371)	(431)	(495)	(564)	(638)	(714)	(793)	(872)	(948)	(1 018)	(1 080)	(1 132)	(1 172)	(1 219)	(1 267)
Net Capital Expenditure Cash Flow		(428)	(1 457)	(1 525)	(940)	(1 090)	(1 213)	(1 335)	(1 453)	(1 565)	(1 666)	(1 753)	(1 791)	(1 798)	(1 770)	(1 708)	(1 612)	(1 739)	(1 809)
Corporate																			
Net PP&E	2 263	1 939	1 856	1 778	1 831	1 886	1 942	2 001	2 061	2 123	2 186	2 252	2 319	2 389	2 461	2 534	2 610	2 689	2 769
Period Depreciation	(206)	(181)	(167)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)
Cash Flow		143	(84)	(96)	(227)	(229)	(231)	(232)	(234)	(236)	(238)	(240)	(242)	(244)	(246)	(248)	(250)	(252)	(255)
Cash Flow of Other Operating Net Assets Excluding PP&E		(443)	(18 205)	214	(5 451)	(2 406)	(3 040)	(3 519)	(3 132)	(3 416)	(3 403)	(3 632)	(3 667)	(3 684)	(3 485)	(3 447)	(3 629)	(3 819)	(4 016)
Cash Flow From PP&E Activities		(3 892)	(4 907)	(3 615)	(5 736)	(5 739)	(7 072)	(6 767)	(8 292)	(9 053)	(8 596)	(8 744)	(9 173)	(9 494)	(9 777)	(10 024)	(10 231)	(10 655)	(11 015)
Free Cash Flow Before Goodwill		9 755	(8 058)	6 443	5 496	12 514	12 419	14 897	16 259	18 373	21 116	23 519	25 632	28 193	30 542	33 073	34 873	36 840	38 597
Investment in Goodwill & Intangibles Assets		(3 513)	(65 707)	6 362	(1 459)	(1 275)	(1 417)	(1 476)	(1 651)	(1 667)	(1 708)	(1 692)	(1 783)	(1 720)	(1 803)	(1 739)	(1 813)	(1 891)	(1 957)
Free Cash Flow After Goodwill		6 242	(73 765)	12 805	4 036	11 238	11 002	13 421	14 607	16 706	19 408	21 827	23 850	26 473	28 739	31 334	33 059	34 948	36 640
NON-OPERATING ACTIVITIES																			
Non Operating Profit Less Adjusted Taxes	381	2 259	2 103	(6 229)	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278
Amortization TFCF and Hulu intangible assets	0	0	1 043	1 921	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Cash Flow from Non-Operating Activities	381	2 259	1 060	(8 150)	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278	1 278
Total Non Core Invested Capital	(1 656)	(3 348)	(13 470)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)	(12 068)
Cash Flow of Other Non Operating Assets		1 692	10 122	(1 402)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OCI	426	359	(2 879)	359	341	324	308	292	278	264	251	238	226	215	204	194	184	175	166
Non Operating cash flow	807	4 310	9 346	(7 272)	1 619	1 602	1 586	1 571	1 556	1 542	1 529	1 516	1 504	1 493	1 482	1 472	1 462	1 453	1 444
Unlevered Free Cash Flow	807	10 552	(64 419)	5 532	5 655	12 840	12 588	14 992	16 163	18 248	20 937	23 344	25 354	27 966	30 221	32 806	34 522	36 402	38 084
Tax Shield	186	180	289	402	302	228	160	75	0	0	0	0	0	0	0	0	0	0	0
Levered Free Cash Flow (Cash flow available to investors)	993	10 732	(64 130)	5 934	5 957	13 069	12 748	15 067	16 163	18 248	20 937	23 344	25 354	27 966	30 221	32 806	34 522	36 402	38 084
FINANCING ACTIVITIES																			
Short term Interest Expense	(87)	(108)	(229)	(156)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense	(420)	(574)	(1 017)	(1 491)	(960)	(728)	(510)	(240)	0	0	0	0	0	0	0	0	0	0	0
Net Financial Assets	(23 541)	(19 088)	(52 112)	(51 336)	(45 812)	(36 951)	(28 667)	(18 387)	(7 382)	5 160	19 893	36 492	54 587	74 699	96 579	120 491	145 704	172 299	200 135
Cash Flow From Net Debt		(5 135)	31 778	(2 423)	(6 484)	(9 588)	(8 794)	(10 519)	(11 005)	(12 542)	(14 734)	(16 598)	(18 095)	(20 112)	(21 880)	(23 912)	(25 213)	(26 595)	(27 836)
Total Comprehensive Income	9 792	13 425	8 705	(2 115)	13 241	16 078	18 276	21 034	23 867	26 409	28 719	31 236	33 618	36 378	38 641	41 206	43 133	45 444	47 491
Equity	41 315	48 773	88 877	83 583	96 824	108 777	122 365	138 003	155 748	175 382	196 734	219 956	244 950	271 996	300 725	331 360	363 428	397 214	432 522
Noncontrolling interests	(3 689)	(4 059)	(5 012)	(4 680)	(5 207)	(5 851)	(6 586)	(7 434)	(8 399)	(9 468)	(10 631)	(11 899)	(13 264)	(14 743)	(16 314)	(17 991)	(19 747)	(21 598)	(23 532)
Transactions with Shareholders		(5 967)	31 399	(3 179)	0	(4 125)	(4 688)	(5 396)	(6 123)	(6 775)	(7 367)	(8 013)	(8 624)	(9 332)	(9 913)	(10 571)	(11 065)	(11 658)	(12 183)
Financing FCF		(10 732)	64 130	(5 934)	(5 957)	(13 069)	(12 748)	(15 067)	(16 163)	(18 248)	(20 937)	(23 344)	(25 354)	(27 966)	(30 221)	(32 806)	(34 522)	(36 402)	(38 084)

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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